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The case of adoption or otherwise of IFRS for SMEs in the EU

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ABSTRACT

In 2009, the IASB issued its International Financial Reporting Standard for Small and Medium-sized Entities. Little is known about what influenced countries' decisions on whether to adopt this important standard.

This study aims to develop a deeper understanding of the decision-making process of national accounting standards boards (NASBs) by examining the influence of both visible environmental factors, including the European Community (EC), national governments and stakeholders, and unseen environmental factors such as authority, history and culture on their behaviour towards IFRS for SMEs. Scholars have criticised NASBs' decision-making processes for being conducted inside a black box and have called for further investigation of this topic. This study uses IFRS for SMEs as a vehicle to fulfil its main objectives by focusing on different European Union (EU) jurisdictions because their reactions toward IFRS for SMEs varied significantly. This is despite the fact that all EU jurisdictions must conform to EC directives, and hence have common rules which they must incorporate.

The main contribution of this study is to show that EU governments' and NASBs' decision-making processes are not isomorphic but differ significantly. Moreover the various behaviours toward IFRS for SMEs resulted not from cost benefit analyses or domination of a single entity or factor but from the influence of interrelated environmental factors that differ from one jurisdiction to another. The findings are explained through a theoretical framework which incorporates theories of power and legitimacy into institutional theory and suggest that whilst the EC had the capacity to mandate adoption of the standard, it chose not to exercise this power. This in turn led other visible environmental factors, including governments and stakeholders, and unseen environmental factors, such as authority, history and culture, to influence the final outcomes and behaviour of governments and NASBs toward IFRS for SMEs.

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I dedicate this work to my family, friends, and colleagues, and especially to my loving wife, Khloud for her support, patience and discussion of my research, even though she neither enjoyed nor understood most of it. I also dedicate this work to my one-year-old son, Yusuf, who may one day read this thesis and decide to undertake a PhD in a field of his choice.

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Special gratitude goes to all interviewees who shared their knowledge and dedicated their precious time to be interviewed, which allowed completion of this study.

AUTHOR’S DECLARATION

I declare that the work in this dissertation was carried out in accordance with the requirements of the University’s Regulations and Code of Practice for Research Degree Programmes and that it has not been submitted for any other academic award. Except where indicated by specific reference in the text, the work is the candidate’s own work. Work done in collaboration with, or with the assistance of, others, is indicated as such. Any views expressed in the dissertation are those of the author.

SIGNED: .... DATE:..................................

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LIST OF ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
AcSB	Canadian Accounting Standards Board
AICPA	American institute of Certified Public Accountants
APC	Auditing Practices Committee
ASB	Accounting Standards Board
ASC	Accounting Standards Committee
ASCG	Accounting Standards Committee of Germany
ASSC	Accounting Standards Steering Committee
BAFA	British Accounting and Finance Association
BERA	British Educational Research Association
BIS	Department for Business, Innovation and Skills
CPA	Certified Public Accountant
DASB	Dutch Accounting Standard Board
DTI	Department for Trade and Industry
EC	European Commission
ED	Exposure Draft
EFRAG	European Financial Reporting Advisory Group
ESMA	European Securities and Market Authority
EU	European Union
FASB	Financial Accounting Standards Board
FPTL	Fiji Posts and Telecommunications Limited
FRBC	Financial Reporting and Business Communication
FRC	Financial Reporting Council
FRSME	Financial Reporting Standards for Medium sized Entities
FRSSE	Financial Reporting Standard for Smaller Entities
FTSE 100	Financial Times Stock Exchange 100 Index
FTSE	Financial Times Stock Exchange 100 Index
GAAP	Generally Accepted Accounting Principles
HGB	Handelsgesetzbuch (German Commercial Code)
HMSO	Her Majesty's Stationery Office
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee

IASCF	International Accounting Standards Committee Foundation
ICAB	The Institute of Chartered Accountants of Bangladesh
ICAEW	The Institute of Chartered Accountants in England and Wales
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities
IFRS	International Financial Reporting Standards for publicly accountable entities
IOSCO	International Organization of Securities Commissions
IRS	Internal Revenue Service
ISAR	International Standards of Accounting and Reporting
KPMG	Klynveld Peat Marwick Goerdeler (accounting firm)
MRT	Middle-Range Thinking
NAF	Norwegian Accounting Standards Board
NASB	National Accounting Standards Board
NPAE	Non-Publicly Accountable Entities
OIC	Italian Accounting Standards Board (Organismo Italiano Contabilità)
PFI	Private Finance Initiatives
SEC	Securities and Exchange Commission
SMEs Working Group	Small/Medium Entities Working Group
SMEs	Small and Medium-sized Entities
SORP	Statements of Recommended Practice
SSAP	Statements of Standard Accounting Practice
TEG	Technical Expert Group
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US	United States of America

Chapter 1: Introduction to the Research

1.1 Introduction

This study explores and investigates European Union (EU) National Accounting Standards Boards' (NASBs) decision-making processes with regard to International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). It uses the standard as a vehicle to investigate their processes and the motivations behind their various behaviours toward it. The reasons for using IFRS for SMEs for this investigation are twofold. First, Small and Medium-sized Entities (SMEs) are very important to any economy because at least 95 per cent of companies are considered to be SMEs (IASB 2018a). Second, since the issuance of this standard, many jurisdictions have either adopted it or used it as a blueprint for their national accounting regulations. An issue of *Accounting in Europe* (Vol. 14, Issue 1-2, 2017) was dedicated mainly to investigating the role and current state of the International Accounting Standards Board's (IASB) standards, including IFRS for SMEs in the EU, indicating the academic importance of the adoption decision.

Some previous studies (Kaya and Koch 2015; Saucke 2015) have argued that jurisdictions' decisions relating to their behaviour toward IFRS for SMEs were based mainly on cost–benefit analyses. They have also argued that EU countries were unlikely to adopt the standard, or at most would adopt but modify it, owing to its inconsistencies with EC directives, indicating that the directives were a roadblock to adopting the standard. If this were the case, NASBs' decision-making processes would be simple and easy to understand. However, studies have criticised NASB's decision-making processes for being conducted inside a "black box" (e.g. Hodges and Mellett 2002, 2012; Howieson 2017; Baudot 2018; Klein and Fülbier 2018), indicating that classifying NASBs' decision-making processes as mere cost-benefit analyses fails to explain this complex issue. With regard to the EC's Fourth and Seventh Directives, Kaufhold (2015, p.1950) argues that the updated version of the Fourth Directive 2013/34/EU removed the vast majority of incompatibilities between IFRS for SMEs and the directive, and that the only issue remaining was "the treatment of unpaid subscribed capital", which the author deemed unrelated to SMEs because they rarely use it. In other words, the revised directive removed many existing differences, which would allow adoption of IFRS for SMEs. Thus, Kaya and Koch's (2015) and Saucke's

(2015) findings should be treated with caution because their results at most partly explain NASBs' decision-making processes.

In the remainder of this chapter, Section 1.2 presents the motivation for this research and the research questions, Section 1.3 introduces the research methods, Section 1.4 discusses the contribution, and Section 1.5 provides an overview of the study.

1.2 Research motivation and questions

The IASB started working on its IFRS for SMEs project in July 2003 and completed and published it in July 2009 (IASB 2009; Ram 2012; Ram and Newberry 2013, 2017). The IASB stated that IFRS for SMEs is a standalone standard with fewer than 250 pages and claimed that it had been designed around SMEs' capabilities and needs, arguing that the standard is applicable to all SMEs worldwide, which constitute more than 95 per cent of companies around the globe (IASB 2018a). In developing IFRS for SMEs, the IASB did not want to create a new framework based on SMEs' needs and uses; rather, it used the conceptual framework of International Financial Reporting Standards for publicly accountable entities (IFRS) but reduced its accounting options and disclosure requirements (IASB 2003). Thus, it appears to have not intended to create a different set of accounting standards, but a simpler version of IFRS. The IASB's method suggests that it viewed SMEs' uses of financial statements as similar to those of public companies, and adopted a top-down rather than bottom-up approach based on their needs for and uses of financial statements. In justifying its top-down approach, the IASB (2007a, p.27) claimed that a "fresh start" approach to issuing IFRS for SMEs "would be costly and time-consuming and ultimately futile".

Although the IASB's top-down approach indicated that IFRS for SMEs might at most partly satisfy SMEs' requirements, many jurisdictions either adopted or permitted use of the standard (IASB 2018c). According to Kaya and Koch (2015, p.93), "despite the economic importance of non-publicly accountable entities, little is known about what factors influence countries' decisions to adopt IFRS for SMEs". The IASB's top-down approach and increasing acceptance of the standard have motivated scholars (e.g. Aboagye-Otchere and Agbeibor 2012; Bartůňková 2013; Hoxha 2014; Chand et al. 2015; Nisansala 2018) to investigate its usefulness for SMEs in many jurisdictions. In general, they find that IFRS for SMEs is not suitable for SMEs in developing countries because it is deemed too costly and time-consuming and requires detailed disclosures, and the use of fair-value measurement would pose significant challenges. They argue that the costly and cumbersome standard would not create significant benefits because SMEs' financial statements are prepared primarily for the purposes of management (e.g. Collis and Jarvis 2000) and taxation (e.g. Sian and Roberts 2009), whereas publicly accountable entities prepare financial statements to inform investors (Saucke 2015). Hopwood (1994) suggests that the benefits of international accounting standards (IASs) have been taken for granted rather than being systematically explored, which suggests a limited understanding of these standards. This assumption may be applicable to IFRS for SMEs, since many jurisdictions have adopted or permitted it regardless of the IASB's top-down approach and empirical results that challenge its usefulness for SMEs worldwide. These issues raise the question of why many jurisdictions have adopted or permitted its use, which in turn motivated this study's exploration of EU NASBs' decision-making processes with regard to IFRS for SMEs.

The EU provides an interesting setting in which to investigate NASBs' decision-making processes because all EU jurisdictions must comply with EC directives (EC 2016b), and hence have common rules to which they must adhere and must incorporate into their own regulations when issuing national laws and regulations. However, the EC's rejection of IFRS for SMEs did not cause all EU jurisdictions to reject the standard but resulted in differing behaviours. For instance, the United Kingdom (UK) and Ireland adopted the standard with major modifications, whereas Germany, Italy and the Netherlands rejected it (IFRS Foundation 2016a, 2016b, 2016c, 2016d, 2016f, 2016h). This raises questions about the reasons for these differing decisions.

Previous studies of NASBs' decision-making processes with regard to IFRS (e.g. Mir and Rahaman 2005; Hail et al. 2010; Ramanna 2013; Howieson 2017) suggest that various environmental factors may have influenced final outcomes. They show that NASBs' processes do not take place in a vacuum. Scholars (e.g. Hoffmann and Zülch 2014; Kosi and Reither 2014; Fülbier et al. 2017) have identified national stakeholders as a relevant element of NASBs' environment. For instance, the German parliament's modernisation of the accounting regulations of the Handelsgesetzbuch (HGB, German Commercial Code) between 2007 and 2009 was significantly influenced by widespread use of the IASB's IASs, meaning that many proposed accounting treatments were aligned with the IASs (Hoffmann and Zülch 2014; Fülbier et al. 2017).

German national stakeholders were not pleased with such a move and actively lobbied the parliament, both privately and publicly, in order to prevent the IASB's accounting standards from infiltrating German Generally Accepted Accounting Principles (GAAP). Hoffmann and Zülch (2014) and Fülbier et al. (2017) suggest that lobbyists successfully influenced the parliament since the initial regulatory proposal was very close to IFRS, whereas the final law did not explicitly refer to it.

German stakeholders' strong opposition to the IASB's accounting standards can be explained by their negative experience of similar standards during crises in the 1870s and 1920s. According to Heidhues and Patel (2011) and Hoffmann and Detzen (2013), Germany's incorporation of fair value measurement during the 1870s and 1920s contributed significantly to these crises.[1] Prior to incorporation of fair value, entities were only permitted to use historical cost treatments. However, fair value measurements were later permitted, allowing entities to revalue their assets based on market price at the time of recognition. This feature led them to overestimate their assets, which caused many to go bankrupt, and in turn led to two national crises. Since fair value measurement had allowed entities to abuse the accounting system and record overestimated transactions, in the 1920s the German government removed this option, reintroduced historical cost accounting and allowed hidden reserves in financial statements. Germany's unfavourable experience with fair value accounting led German SMEs to react negatively to any regulation or accounting standard that might reintroduce fair value measurement. Detailed disclosure and fair value measurement are essential characteristics of the IASB's accounting standards (IASB 2009; EC 2010; Ernst & Young 2010), posing significant challenges for Germany's historically and culturally embedded accounting regulations. This conflict offers an explanation to German SMEs' conservative behaviour toward modernisation of German GAAP.

Previous studies (e.g. Annisette 2004; Ashraf and Ghani 2005; Mir and Rahaman 2005; Albu et al. 2011; Krishnan 2016, 2018) also identify another component of NASBs' environment: the influence of supranational entities. For instance, Mir and Rahaman (2005) argue that Bangladesh adopted IFRS as issued by the IASB and without consultation with national stakeholders because its accounting standards

[1]According to Hoffmann and Detzen (2013, p.384), "Fair value, market value and current value are used interchangeably and signify valuation concepts other than historical cost. For a discussion of the concepts and their recent history, see Alexander (2007)".

setter, the Institute of Chartered Accountants of Bangladesh (ICAB), accepted a World Bank grant of US$200,000 to improve its capability to adopt these standards. In contrast, Albu et al. (2011) argue that although the World Bank mandated adoption of IFRS as a condition for granting a loan to Romania, it did not adopt these standards as issued by the IASB because of its desire to join the EU. It incorporated IFRS to the extent that all adopted standards complied with the EC's Fourth and Seventh Directives, indicating that although two supranational entities influenced its adoption decision, the EC was more powerful in this case, which led to changes to the adopted standards.

These studies reveal influential environmental factors, including supranational entities such as the EC and national stakeholders, culture and history. Such factors led NASBs to behave differently toward IFRS. These inconsistencies suggest that each jurisdiction or NASB has different features and is influenced by different entities. Since accounting is a social practice, other phenomena also require investigation. Thus, the objective of this study is to explore and deepen understanding of EU NASBs' decision-making processes with regard to their various behaviours toward IFRS for SMEs. The findings of previous studies helped in the development of the following research questions:

1- What were NASBs' decision-making processes with regard to adopting IFRS for SMEs?
2- What were NASBs' perceptions of the advantages and disadvantages of IFRS for SMEs, and how did these influence their adoption decisions?
3- Which entities and factors influenced NASBs' decision-making processes in the case of IFRS for SMEs, and to what extent?

The first research question was developed from studies including Broadbent and Laughlin (2002), Eierle and Haller (2009), Ram (2012), Ram and Newberry (2013, 2017), Uyar and Güngörmüş (2013), Kiliç et al. (2014) and Krishnan (2016). The second was drawn from studies by Bartůňková (2013), Hoxha (2014), Chand et al. (2015), Kaya and Koch (2015), Saucke (2015) and Gassen (2017). The final question was developed from Broadbent and Laughlin (2002), Mir and Rahaman (2005), Howieson (2009, 2017), Albu et al. (2011), Burlaud and Colasse (2011), Danjou and Walton (2012), Ramanna (2013), Ram and Newberry (2013), Collis et al. (2017), Di Pietra (2017) and Fülbier et al. (2017). It was then necessary to determine an appropriate research method to achieve the research objective, as discussed in the next section.

1.3 Research methods

This study embraces Laughlin's (1995) middle-range thinking (MRT). He describes this approach as a middle ground between positivism and interpretivism, taking into account the strengths and weaknesses of both. For instance, Laughlin (1995) argues that positivism's predetermined or fixed perceptions do not allow scholars to explore accidently overlooked issues (Broadbent and Laughlin 2013). In contrast, interpretivists lack rules and engage in minimal preparation for fear that rules may constrain their investigations, so it is almost impossible to replicate such studies since they are based on the researchers' own perceptual powers (Laughlin 1995). In order to minimise the disadvantages and maximise the advantages of positivism and interpretivism, Laughlin's (1995, 2004, 2007) Middle Range Thinking (MRT) approach suggests that it is essential to gain general preliminary understandings of the phenomena under investigation. Such understandings can be gained from previous literature, to help identify general patterns that may guide and be guided by empirical results. Scholars' involvement with the phenomena under investigation should neither be fixed nor entirely without rules, but semi-structured. Having some rules allows replication and provides scholars with flexibility to adjust the research design. Since accounting is defined as a social practice (Chua 1986), it is desirable to collect and use qualitative data, including interviews and publicly available documents (Laughlin 1995).

Based on the MRT approach, in this study, a general preliminary understanding of NASBs' decision-making processes was gained from a review of previous literature. This review indicated the existence of general theoretical and empirical patterns, including environmental factors influencing NASBs' decision-making processes, which helped create the skeletal theoretical framework, research questions and interview protocols for this study. The framework also provided some structure for field involvement and investigation of the chosen phenomenon. Qualitative data and research methods were used in this study, involving interviews and the gathering of publicly available documents. The data gathering was based on semi-structured rules, so the investigation process was guided by the study's research design and theoretical framework. NVivo software and latent content analysis were used to analyse the interviews and archival and secondary data respectively. All gathered data were reflexively interpreted and considered in tandem, which allowed exploration of reasons for EU NASBs' various behaviours toward IFRS for SMEs. Lastly, critical reflexive thinking facilitated the theoretical and empirical contributions of this study, as discussed in more detail in the next section.

1.4 Contributions

The contributions of this study are twofold. First, it makes several practical contributions. Previous scholars (Kaya and Koch 2015; Saucke 2015) have argued that cost–benefit analysis and the EC's directives were the principal causes of rejection of IFRS for SMEs in the EU and the UK's major modifications. However, although the EC had a notable influence on EU jurisdictions, its directives were not the most influential factors with regard to governments' and NASBs' differing behaviours toward IFRS for SMEs. In other words, since the EC did not mandate adoption of the standard, its latent power allowed both visible and unseen environmental factors relating to EU NASBs to influence their behaviours and final outcomes. However, although NASBs were influenced by similar environmental factors, these factors varied in nature and were interrelated, revealing the complexity of their adoption and non-adoption decisions.

This challenges the assumption that NASBs' decisions were based mainly on cost–benefit analyses; rather, interrelated factors, including visible environmental factors such as the EC, national governments and stakeholders, and unseen environmental factors such as authority, national history and culture, influenced adoption or non-adoption of IFRS for SMEs to differing extents. The findings also suggest many reasons for the major modifications introduced by the UK and Ireland prior to adopting IFRS for SMEs. Although some of the ASB's early modifications were due partly to the EC directives and issues of incomparability between the standard and the EC's Fourth and Seventh Directives, the Financial Reporting Council's (FRC) major modifications were driven not by the EC regulations but by its environment.

In addition to its practical contributions, this study also makes a theoretical contribution. Dillard et al. (2004) suggest that incorporating structuration theory into institutional theory enabled them to mitigate institutional theory's limitations and led to a better articulation of the phenomenon they investigated. In a similar approach, this study incorporates theories of power and legitimacy into institutional theory to enable a deeper understanding of NASBs' decision making processes. Institutional theory has been criticised for its weak consideration of power (e.g. Cloutier and Langley 2013) and oversimplified recognition of legitimacy (e.g. Dart 2004; Phillips and Malhotra 2008; Scott 2008). For instance, institutional theory does not acknowledge that power has multiple dimensions and that legitimacy has various types. This is important for this study as each dimension of power and type of legitimacy may differently influence an entity's behaviour and tolerance of or compliance with various environmental factors. Scholars (e.g. Hail et al. 2010; Zeff and Nobes 2010; Albu et al. 2011; Ramanna 2013) also highlight that authority and national accounting history and culture are important and relevant factors for understanding NASBs' decision-making processes, yet institutional theory at most only briefly and implicitly discusses these factors.

In order to mitigate these criticisms, this study creates a skeletal theoretical framework presented in Table 4.1 and Figure 4.1, which incorporates a theory of power, more specifically Lukes's (1974, 1977, 2005) work on power including his three dimensions of power, and legitimacy theory, more specifically Suchman's (1995) different types of legitimacy. It also explicitly acknowledges relevant factors defined by prior literature discussed in Chapter 2, including influence of authority, and history and culture. In other words, the theoretical framework of this study proposes a social-theory-based framework for expanding institutional theory to better articulate institutionalisation processes by suggesting that coercive pressure has multiple dimensions and that normative and memetic pressures each have various types. This, in turn, allows institutional theory to better articulate political and socio-economic contexts and further addresses the dynamics of enacting, embedding and changing organisational processes. For instance, the findings of this study suggest that, in the case of IFRS for SMEs, the EC's latent power, since it did not mandate adoption of the standard, allowed various environmental factors to influence governments' and NASBs' decision-making processes. However, in the case of IFRS, despite the existence of various cultural, historical and accounting traditions in the EU, the EC's exercise of power caused EU countries' to adopt these standards for publicly listed companies' consolidated financial statements. In effect the EC's exercise of power prevented other environmental factors influencing NASBs decision-making processes.

Laughlin (1995, 2004, 2007) defines the MRT approach as a technique to “flesh out” a theoretical “skeleton”. The “skeletal” theory may indicate the existence of general patterns; however, empirical results and evidence are required to validate and make such theory meaningful. In other words, the theoretical skeleton only provides a language that allows the empirical findings to be understood, and the empirical findings authenticate and aid the development of the skeletal theory. Thus, the skeletal theoretical framework of this study revealed general patterns that helped explore why jurisdictions’ behaviours toward IFRS for SMEs diverged, while the empirical findings validate the framework and indicate its appropriateness for future studies with regard to NASBs’ decision-making processes. The MRT approach guided the research process but did not prevent the discovery of overlooked findings. It also allowed many obstacles to be overcome which were deemed to be roadblocks to completion of the research. Thus, this approach was useful for investigating NASBs’ decision-making processes.

1.5 Outline of the study

This study is presented in nine chapters as follows. The current chapter has presented a brief overview of the study, the motivation for the research, and the research questions, methods and contributions.

Chapter 2 reviews the previous literature to gain preliminary understanding of NASBs’ decision-making processes and the usefulness of IFRS and IFRS for SMEs. These studies helped create the skeletal theoretical framework that guided the research process by revealing general empirical and theoretical patterns that might explain why EU jurisdictions’ behaviour toward IFRS for SMEs varied.

Chapter 3 provides a detailed discussion of Laughlin’s (1995) MRT approach, its limitations and the motivation for embracing it in this study. The MRT approach guided the choices made in this study, including choosing appropriate data, and analysing and interpreting the data based on the research objectives and the nature of the phenomenon under investigation. This chapter also discusses the steps taken in this study to collect and analyse data.

Chapter 4 discusses institutional theory, its criticisms, and the incorporation of power and legitimacy theories to overcome some of these limitations, which led to the creation of the skeletal theoretical framework of this study. This framework was based on empirical and theoretical issues discussed in previous literature; hence, an abductive approach was adopted to deepen understanding of NASBs' decision-making processes.

Chapter 5 presents the first set of empirical findings relating to the UK's adoption of IFRS for SMEs and the influence of the UK NASB's visible and unseen environmental factors on its adoption decision, providing a deeper understanding of its process and reasons for modifications prior to adopting IFRS for SMEs.

Chapter 6 presents the second set of empirical findings relating to the rejection of IFRS for SMEs by Germany, Italy and the Netherlands, and the influence of visible and unseen factors in the environments of EFRAG, ASCG, OIC and DASB on EFRAG's advice and comparability study, as well as on other NASBs' decisions to reject the standard. This provides a deeper understanding of their processes and the reasons for their behaviours toward IFRS for SMEs.

Chapter 7 develops the skeletal theoretical framework by using the findings of this study to identify relevant elements, adding needed meat to the bones of the framework and creating a version of the developed framework for each jurisdiction based on their own characteristics and unique reasons for this behaviour. Relevant visible and unseen environmental factors are colour coded depending on the extent to which they were consistent with, supported or entities' own characteristics were influenced by their decisions to adopt IFRS for SMEs.

Finally, Chapter 8 presents the contributions, limitations and implications of this study, and makes recommendations for future research.

Chapter 2: Literature Review

2.1 Introduction

For decades, scholars have investigated accounting standards boards' decision-making processes with regard to issuing, modifying, adopting or rejecting accounting standards (Cobb et al. 1976; Lowe et al. 1983; Sutton 1984; Laughlin 1987; Booth and Cocks 1990; Wallace 1990; Nobes 1991, 1992; Fogarty 1992; Klumpes 1994; Rahman et al. 1994; Walker and Robinson 1994; Gordon and Morris 1996; Broadbent and Laughlin 2002; Ashraf and Ghani 2005; Mir and Rahaman 2005; Cortese 2006; Howieson 2009; Stevenson 2010; Albu et al. 2011; Hodges and Mellett 2012; Hoffmann and Zülch 2014; Kim 2015; Warren 2017; Krishnan 2018). They suggest that, depending on the nature of and potential changes introduced by an accounting standard, various visible environmental factors, including stakeholders, and unseen environmental factors, such as politics and national accounting history and culture, may influence the final outcomes. The influence of such diverse factors on NASBs suggests that understanding their processes is complex. For instance, scholars (e.g. Larson 2007) criticise the IASB's accounting standard-setting process for being difficult to understand, despite its recognition as the world's standard setter for financial markets (Whittington 2005; Danjou and Walton 2012). This raises questions about NASBs' decision-making processes in general, and more specifically about their behaviour toward the IASB's accounting standards, including IFRS and IFRS for SMEs.

The reason for this is that, since the issuance of the IASB's accounting standards, many jurisdictions have either adopted, rejected or permitted these standards, or have used them as a blueprint for their own national accounting standards (IASB 2017). Chris Cox (2014), former Securities and Exchange Commission (SEC) Chair, observes that even if the IASB's accounting standards were to lead to global convergence in the short term, it is not sustainable in the long term. This is because a country adopting IFRS must allow a foreign entity to dictate its financial reporting laws, full-scale adoption of IFRS may be unlikely in the US (Hail et al. 2010), and other jurisdictions may behave similarly or create their own versions of the IASB's standards, thereby undermining harmonisation of accounting standards worldwide. Critics of international accounting harmonisation (e.g. Hopwood 1994) argue that many people have less comprehension of the main aspects of international accounting than they realise. Hopwood also states that:

> *"The emergence of interests in international accounting has not been explored. Little is known to outsiders of the complex and shifting politics that pervade the area. What is known is an official discourse of standardization and its benefits, the status of which is usually taken for granted rather than systematically explored"* (Hopwood 1994, p.251).

In other words, Hopwood (1994) questions NASBs' decision-making processes and behaviours toward the IASB's accounting standards. Therefore, this chapter discusses previous literature on NASBs' decision-making processes with regard to the IASB's accounting standards, including IFRS and IFRS for SMEs, and their usefulness to preparers and users of financial statements.

The remainder of this chapter is organised as follows. Section 2.2 discusses contextual factors that influence NASBs' decision-making processes. Section 2.3 provides an overview of literature relating to IFRS standards' usefulness to preparers and users of financial statements. Section 2.4 discusses SMEs' issues arising from accounting regulations. Section 2.5 discusses the development of IFRS for SMEs, and Section 2.6 discusses relevant studies that investigate its appropriateness to SMEs in various jurisdictions. Lastly, Section 2.7 summaries and draws conclusions on the topics covered in this chapter.

2.2 Influence of contextual factors on NASBs

Although publicly available documents discuss NASBs' decision-making processes, they seldom provide a comprehensive picture of their final decisions because the influence of environmental factors is often undocumented (e.g. Hodges and Mellett 2002; Howieson 2009). This, in turn, has caused scholars to criticise their processes for being conducted within a "black box" (e.g. Hodges and Mellett 2002, 2012).

This section provides an overview of NASBs and the influence of contextual factors on their decision-making processes.

2.2.1 Overview of accounting standard setting and role of national governments

Many NASBs describe the process of accounting standard setting as profound, comprehensive and successive, suggesting a conscious, logical and legitimate due process (Hodges and Mellett 2012; Ram 2012; Ram and Newberry 2013, 2017). For instance, the IASB claims to adopt a rational approach to issuing accounting standards, and highlights the importance of comprehensive and systematic analysis in this process (IASCF 2006). However, little is known about whether NASBs actually follow the expected rational approach in developing their accounting standards (e.g. Hopwood 1994; Ram 2012). Gerboth (1972, p.47) contends that NASBs do not follow "commonly accepted virtues of orderliness and completeness, but common-sense norms are not necessarily criteria for policy-making"; he describes the process of issuing accounting standards as "muddling through".

NASBs seek to convince their external environments that their accounting standard-setting processes are fair and legitimate. Young (2003) contends that staff and board members of the Financial Accounting Standards Board (FASB) often interact with external parties to persuade them that its work is valid, adequate, valuable and beneficial. It uses many techniques, including speeches by staff and board members, publication of articles and exposure drafts (EDs), minutes of meetings, final standards and other documents (Young 2003).

Scholars' description of the accounting standards setting process as being conducted inside a "black box" (e.g. Hodges and Mellett 2002, 2012; Howieson 2009, 2017; Ram 2012; Ram and Newberry 2013, 2017; Baudot 2018; Klein and Fülbier 2018) suggests that undocumented environmental forces influence NASBs' decision-making processes. Publicly available documents do not provide a comprehensive picture of their decision-making processes because environmental factors are intentionally or unintentionally omitted. Hodges and Mellett (2002, 2012) propose that, in order to better understand the extent of environmental factors influences, including national stakeholders, governments, and political and supranational entities, it is valuable to seek the perceptions of participants in NASBs' decision-making processes, such as technical staff, project managers, research directors and board members, owing to their direct inside knowledge of their institutions.

The IASB's approach to preparing jurisdictional profiles validates scholars' call to interview NASBs. For instance, when the IASB prepares a jurisdiction's profile, which discusses the level of adoption of its accounting standards including IFRS and IFRS for SMEs, it contacts NASBs and relevant bodies such as governmental institutes and central banks (IASB 2017). In the case of the EU, Germany, the Netherlands, Italy, Ireland and the UK, it lists as "relevant jurisdictional authorities" the European Financial Reporting Advisory Group (EFRAG), the Accounting Standards Committee of Germany (ASCG), the Dutch Accounting Standard Board (DASB), the Italian accounting standards board (OIC) and the FRC respectively, indicating their relevance and importance to understanding the status and process of IFRS for SMEs in these jurisdictions (IFRS Foundation 2016a, 2016b, 2016c, 2016d, 2016f, 2016h).

However, NASBs' responsibilities and authority differ. For instance, EFRAG and ASCG are not responsible for issuing accounting regulations; rather, their role is only to advise the European Commission (EC) and German Federal Ministry of Justice on SMEs' accounting regulations (Federal Ministry of Justice 2011; EC 2016a; Fülbier et al. 2017). On the other hand, the DASB, OIC and FRC are responsible for issuing national accounting standards for use by SMEs within their jurisdictions (FRC 2016; DASB no date; OIC no date-b; Brouwer and Hoogendoorn 2017; Collis et al. 2017; Di Pietra 2017).

One explanation for NASBs' differing levels of authority is that it is driven mainly by their respective governments' delegation of authoritative power, as they may have to comply with their jurisdiction's governmental rules and regulations. For instance, the FRC, OIC, DASB and ASCG must issue accounting standards that comply, respectively, with the UK's companies acts, the Italian civil code, the Dutch civil code and the German commercial code, because such compliance is embedded in their roles as NASBs (Federal Ministry of Justice 2011; DASB no date; FRC no date; OIC no date-b; Brouwer and Hoogendoorn 2017; Collis et al. 2017; Di Pietra 2017). Although the FRC's relationship with the UK government may seem clearer than for other NASBs, the extent of governmental influence with regard to the ASCG, DASB and OIC is unclear. For example, Germany's Federal Ministry of Justice (2011) states that the ASCG must provide all drafts and interpretations of adopted standards to the Federal Minister of Justice. Once proposed standards are approved by Germany's Federal Ministry of Justice, the government publishes these standards in the Federal Gazette, and entities are advised to comply with them. However, it is unclear what would happen if the Federal Ministry of Justice were to refuse to publish the standards. In the case of the DASB, although it issues accounting standards, it does not claim that "the authoritative statements in either the draft or the final standards are compulsory in the same way as the legal requirements" (DASB no date).

On the other hand, in the UK and the Republic of Ireland, the government has authority to establish and disestablish the organisation responsible for issuing accounting standards (ICAEW 2018b). The UK government established the FRC and its predecessor, the Accounting Standards Board (ASB), to promote good financial reporting. In 2012 the FRC took over the ASB and became the entity responsible for issuing national accounting standards, among other responsibilities (Collis et al. 2017; ICAEW 2018a, 2018b). Much of the FRC's authority, responsibility and functions are recognised in statute, including the Companies Acts 2004 and 2006 (FRC no date). In March 2013, the FRC adopted IFRS for SMEs with major modification and issued it as FRS 102 (IFRS Foundation 2016f, 2016h; Collis et al. 2017). Thus, the government's role and involvement vary by jurisdiction, and it is unclear how governments influence NASBs' decision-making processes. Operating in different external environments may influence their behaviour towards IFRS for SMEs in different ways.

NASBs not only interact with their governments, but also with other entities. Like other organisations, they do not adopt and issue accounting standards in a political and social void (e.g. Fogarty et al. 1994; Young 1995; Mir and Rahaman 2005; Hail et al. 2010; Krishnan 2018). The next sub-section discusses lobbyists' involvement in accounting standard setting.

2.2.2 Active stakeholders' influence on NASBs

NASBs normally provide stakeholders with opportunities to participate at various stages of their decision-making processes including agenda entry (e.g. Cobb et al. 1976; Sutton 1984; Nobes 1992; Rahman et al. 1994; Walker and Robinson 1994; Kwok and Sharp 2005; Cortese 2006; Huang 2013; Bewley et al. 2018). In accounting standard setting, stakeholders' efforts to influence NASBs' decision-making processes are referred to as "lobbying" (Watts and Zimmerman 1978; Zeff 2002, 2010; Königsgruber 2010; Krishnan 2018), which Sutton (1984) defines as individuals' or organisations' attempts to promote, change or obstruct the amendment or issuance of new regulations. Studies have investigated the effect of lobbyists' activities on NASBs' decision-making processes (e.g. Watts and Zimmerman 1978; Schalow 1995; Georgiou 2002, 2004, 2010; Königsgruber 2010; Zeff 2010; Giner and Arce 2012; Hoffmann and Zülch 2014; Fülbier et al. 2017; Bewley et al. 2018; Krishnan 2018).

These identify many issues relating to lobbying activities, including what motivates lobbyists to participate and when they do so.

Like any other entity, lobbyists incur expenses when they lobby NASBs. Scholars (e.g. Jorissen et al. 2013; Hoffmann and Zülch 2014; Bewley et al. 2018) argue that lobbyists' behaviour is influenced by whether the expected benefits of proposed new or amended regulations and the probability of influencing NASBs' decision-making outcomes outweigh the costs of lobbying. Thus, not all stakeholders participate in such action. Lobbyists' participation depends mainly on the impact of proposed changes on their financial statements, and more specifically on their cash flows. Lobbying activities are likely to occur if proposed changes impose additional burdens, impact on borrowing agreements, increase book-keeping costs, impose higher taxes or influence information collection and disclosure (e.g. Georgiou 2002; Jorissen et al. 2012; Fülbier et al. 2017; Bewley et al. 2018). For instance, Kosi and Reither (2014) investigate how changes proposed to IFRS 4 (Insurance Contracts) influenced lobbyists' activities. They find that insurance companies and financially constrained firms were more likely to lobby NASBs because the proposed changes specifically influenced their income volatility. Hence, lobbyists' activities may generally be associated with the influence of proposed changes on their economic position.

Previous studies have also investigated types of lobbyists, focusing mainly on preparers of financial statements (e.g. Schalow 1995; Georgiou 2004, 2010). Unlike *users* of financial statements, *preparers* tend to actively lobby NASBs and are often involved in the accounting standard-setting process because their potential benefits are higher (e.g. Sutton 1984; Georgiou 2004, 2010; Larson 2007; Durocher and Fortin 2010; Giner and Arce 2012; Jorissen et al. 2012). However, although NASBs often issue accounting standards to satisfy users' needs, the users themselves seldom participate in standard setting, which implies that their perspectives may be ignored (Georgiou 2010; Durocher and Fortin 2010). As a result, scholars criticise and are sceptical of NASBs' decision-making processes, as well as how they cite users' needs in promoting their accounting standards (Young 2003, 2006). Durocher and Fortin (2010, p.497) highlight that "a user perspective in standard setting is not an overriding pragmatic concern for standard setters, but more of a symbolic rhetorical strategy that helps to ensure their cultural legitimacy". They also question whether NASBs develop accounting standards with "true knowledge of users' needs and decision processes" (Durocher and Fortin 2010, p.497).

The case of the German parliament's modernisation of accounting regulations between 2007 and 2009 illustrates lobbyists' influence on the decision-making process for accounting standards. Hoffmann and Zülch (2014) and Fülbier et al. (2017) argue that moderation of the HGB was inspired by widespread use of IFRS. At that time, the ASCG had no power over standard setting and played only an advisory role to the parliament. Interest groups lobbied parliament in both written and oral, public and private communications. Hoffmann and Zülch (2014) compare lobbyists' statements with the final outcome, concluding that they strongly influenced moderation of the HGB through the use of three "myths": "Germany's legal authority is undermined by the reform, German SMEs are weak and in need of protection and German accounting principles are highly endangered by the reform" (Hoffmann and Zülch 2014, p.719). They argue that lobbyists were able to transfer their own knowledge and beliefs relatively easily because those in parliament lacked accounting expertise. As a result, parliament accepted and supported these myths. The ministry's initial regulatory proposal was very close to IFRS, whereas the final law was independent and did not explicitly refer to it. Accordingly, the main goals underlying the myths were achieved: German SMEs were protected, and national accounting regulations were preserved.

These studies provide partial insights into NASBs' environments by identifying active lobbyists including national stakeholders and governments, as entities relevant to their decision-making processes. Although stakeholders' behaviours and lobbying activities may be driven by economic benefits, their perceptions of their level of influence and their understanding of the technical issues, these are not the only reasons for their participation in NASBs' decision-making process. Embedded cultural accounting traditions may also encourage such lobbying activities, or cause non-compliance if forced to adopt accounting regulations (e.g. Mir and Rahaman 2005; Ramanna 2013; Degos et al. 2018). The next sub-section discusses the influence of national accounting history and culture on NASBs' decision-making processes.

2.2.3 Influence of history and culture on NASBs' decision-making processes

Previous research on moves toward harmonisation of accounting standards has considered culture as an influential factor (Heidhues and Patel 2011). According to

Heidhues and Patel (2011), Gray's (1988) framework and subsequent adaptations have significantly influenced cross-cultural accounting studies. This framework was based on Hofstede's (1980) four-dimensional model, which in turn was based on an international survey of IBM employees in over 50 countries between 1967 and 1973 (Holden et al. 2015). Hofstede (1984b, p.21) describes national culture as "a collective programming of the mind which distinguishes the members of one human group from another".

Perera (1989) uses Gray's (1988) framework in hypothesising the relationship between society and accounting values. For example, he argues that in countries such as France and (West) Germany, governments' direct involvement in setting national accounting standards is traditionally accepted; whereas in countries such as the UK and the US, governments rarely play such an active role, and the accounting profession tends to determine accounting standards. Perera (1989) attributes established associations between societal and accounting values to preparers' value orientations, which are formed by cultural values.

Ding et al. (2005) utilises Hofstede's (1984b) dimensions and Schwartz's (1994) new cultural dimensions of values as proxies to investigate and explain the influence of culture on accounting harmonisation and the adoption of IASs. They state that, although technical and political dimensions are essential to the harmonisation debate, rejection of IASs is driven not only by the legal context (common law/code law) or technical superiority, but also by diverse cultural factors. They measure differences between national Generally Accepted Accounting Principles (GAAP) and IASs using divergence and absence measures. They find that cultural values matter more than legal context and correlate with their *divergence* index in explaining divergences from IASs.

Gernon and Wallace (1995, p.85) describe the research framework in international accounting as "trapped by a paradigm myopia by its reliance on the framework suggested by Hofstede". They argue that Hofstede's work on culture is unrepresentative because it relies on an assumption that IBM employees, on whom the research was based, accurately represent the values of each country. Scholars such as Baskerville (2003) and Heidhues and Patel (2011) further criticise the use of Hofstede's and Gray's work on culture suggesting that lack of recognition of the former framework’s critical flaws limits the validity of the latter. Baskerville (2003, pp.1-2) proposes that “Hofstede established the dimensions of culture, and the subsequent reification of ‘culture’ as a variable in cross-national studies in accounting research led to a misleading dependence on cultural indices as an explanatory variable of differences in accounting practices and behaviour.” Although studies that have used Hofstede’s (1980, 1984a, 1984b) and Gray’s (1988) work on accounting culture suggest its relevance to accounting regulations, the framework omits countries’ unique characteristics and features, causing improper and vague clustering of countries (Heidhues and Patel 2011; Nobes 1998, 2018). According to Nobes (2018), Hofstede’s (1984a) consideration of culture as an independent measurable variable is vague because, for instance, Hofstede considers Asian and Middle-Eastern countries to have a different range of management cultures, yet he clusters East African and Arab countries as blocs, even though the former includes jurisdictions colonised and influenced by the UK. Nobes (1998) suggests that scholars might better focus on the influence of countries’ cultural features on particular fields, such as corporate finance, because such a focus might provide plausible explanations of the former’s influence on the latter.

Differently from quantitative studies that utilise Hofstede’s and Gray’s indices, a significant body of qualitative research investigates the influence of national accounting history and culture on accounting regulations, and jurisdictions’ moves toward harmonisation or substituting their own accounting standards with those of the IASB (e.g. Fogarty 1992; Walker and Robinson 1994; Mir and Rahaman 2005; Heidhues and Patel 2011; Ramanna 2013; Degos et al. 2018). One of the main issues identified with regard to adoption of IFRS is that these standards are strongly tailored toward countries with Anglo-Saxon accounting models, such as the US (e.g. Mir and Rahaman 2005; Tyrrall et al. 2007; Vellam 2012; Aletkin 2014; Mohammadrezaei et al. 2015). This raises many obstacles for developing countries seeking to adopt the IASB’s accounting standards, because the latter have significantly different historical and cultural accounting traditions compared with developing countries’ national accounting regulations. Nobes and Parker (2012) and Degos et al. (2018) define the Anglo-Saxon accounting model as weakly connected with tax regulations and with an emphasis on informing investors, whereas the Continental European accounting model is strongly associated with taxable income and focuses principally on informing creditors.

The UK's adoption of IFRS vividly illustrates the influence of national accounting history on accounting regulations. For instance, in the UK, an essential accounting feature, the "true and fair view", was introduced in the 1948 Companies Act, which determined that financial reporting should provide a "true and fair view" of companies' performance and financial position (HMSO 1965; Parker 1989; Nobes 1993; FRC 2014b). Since the introduction of this phrase in 1948, it has played a significant role and been widely used in accounting standards published in the UK, and has been exported to British Commonwealth countries, the EC and many EU countries (Parker 1989; Nobes 1993; Nobes and Parker 2012; FRC 2014b). For instance, the FRC has used the phrase in all six of its collective financial reporting standards (FRC 2014b, 2018), thus preserving this historically accepted accounting tradition. When the EC mandated adoption of IFRS in 2002 (EC 2000, 2002), there was fear for the demise of this feature, but the IASB's Anglo-Saxon model suggested that this issue would be overcome. According to the FRC (2014b, p.3), implementation of IFRS in the UK did not encumber the essential concept of the "true and fair view" because "fair presentation under IFRS is equivalent to a true and fair view".[2] Thus, the existence of this feature in the IASB's accounting standards eased their adoption in the UK.

Canada provides another example of how environmental factors, including history and culture, influence adoption decisions. Ramanna (2013) examines IFRS adoption in Canada. Since a significant proportion of Canada's exporting activities and the majority of its foreign portfolio investments are associated with the US, it would seem economically beneficial for it to adopt US GAAP, yet it has adopted IFRS. Ramanna (2013) argues that two factors may have influenced this decision. First, Canada has a desire to differentiate itself from the US, despite the two countries' strong economic connections. Second, since the 1970s, Canada has been involved in the development of the IAS standards, and is also a more recent former UK colony, representing high proximity to the UK's accounting history and culture. Ramanna (2013) defines

[2]This study cannot confirm such compliance. In order to do so, it would be necessary to evaluate the true and fair view before and after the introduction of IFRS, which is beyond the scope of this study and might be investigated in future research.

proximity in terms of historical and cultural distance, “where “culture” is defined as a set of shared beliefs and preferences across entities” (Fernández 2008 cited in Ramanna 2013, p.6). The author identifies two reasons for Canada’s adoption of IFRS as a result of its British roots. First, the early development of Canada’s accounting profession closely followed the British tradition, having used the British Companies Act, 1900 as a framework. Second, Canada’s principles of corporate disclosure were created in accordance with “the 1844 British law on joint stock companies” (Gray and Kitching 2005 cited in Ramanna 2013, p.15). Therefore, Canada’s proximity to the UK caused it also to be proximate to the IASB’s accounting standards, which led to its adoption of IFRS.

In other countries, differences between national accounting history and the IASB’s accounting standards may negatively influence behaviours toward the latter (e.g. Brouwer and Hoogendoorn 2017; Collis et al. 2017; Di Pietra 2017; Fülbier et al. 2017; Degos et al. 2018). For instance, Heidhues and Patel (2011) and Fülbier et al. (2017) critically examine German GAAP and its closeness to the IASB’s accounting standards. Their analysis shows that, although the German accounting model is getting closer to the IASB’s accounting standards, Germany still retains many of its historical accounting features, including confidentiality, limited financial disclosure, preservation of “merchants’” privacy and the development of accounting regulations tailored to creditors. They argue that there are various reasons for preserving these features, including the economic environment and national stakeholders’ active participation in accounting standard setting. However, another explanation is Germany’s accounting history.

According to Heidhues and Patel (2011) and Hoffmann and Detzen (2013), one of the main reasons for Germany’s crises between the 1870s and the 1920s was the use of fair value measurement. Prior to the introduction of fair value, Germany only allowed use of historical costs, meaning that companies could only record the prices they actually paid for their assets or products. Introduction of fair value allowed them to record their assets according to their market price at the time of recognition. As a result, many entities speculated on price increases and recorded them based on estimations, which caused the recording of unrealised gains and led to the bankruptcy of many entities, and hence two national crises. In the 1920s, the German government removed fair value accounting and reintroduced historical cost accounting and thus allowed hidden reserves in financial statements.

Germany's negative experience of fair value accounting causes national stakeholders to react negatively to any accounting regulations that incorporate this approach. Since fundamental features of the IASB's accounting standards are detailed disclosure and fair value measurement (IASB 2009; Ernst & Young 2010; EC 2010), these contradict Germany's historically embedded accounting regulations. Thus, Germany's history and negative experience of fair value measurement may also explain the results of Heidhues and Patel (2011) and Fülbier et al. (2017).

In general, previous studies provide evidence to support the influence of national accounting history and culture on the adoption or non-adoption of accounting standards. In doing so, they shed some light on NASBs' environments. However, national stakeholders, governments and historical and cultural accounting traditions are not the only issues that influence NASBs' decision-making processes. Authority has been identified as another influential factor (e.g. Mir and Rahaman 2005; Hail et al. 2010; Albu et al. 2011; Ramanna 2013), as discussed in the next sub-section.

2.2.4 Influence of authority on NASBs' adoption decisions

Since the IFRS standards were issued, many jurisdictions have either adopted, rejected, permitted or used these standards as a blueprint for their own national accounting standards (IASB 2017). As a result, scholars (e.g. Hail et al. 2010; Zeff 2010; Cox 2014; Krishnan 2016; Van Mourik and Walton 2018) have begun to investigate various aspects that may influence adoption of IASB's accounting standards, including authority. Although the US accounting professional bodies were, among others, responsible for forming the IASB's predecessor, the International Accounting Standards Committee (IASC; Deloitte Touche Tohmatsu no date), it has not adopted the IASB's accounting standards, even though these standards are based on the Anglo-Saxon accounting model (e.g. Mir and Rahaman 2005; Tyrrall et al. 2007; Aletkin 2014; Mohammadrezaei et al. 2015; Bamber and McMeeking 2016). Previous studies have argued that the IASB's accounting regulations are based on and influenced by those of Anglo-Saxon jurisdictions such as the UK and US (Zeff 2002; Mir and Rahaman 2005; Hail et al. 2010; Bamber and McMeeking 2016), raising the question of why the US has not adopted them.

The US provides one of the most prominent examples of environmental factors influencing IFRS adoption. Hail et al. (2010) argue that the US is unwilling to adopt IFRS because this decision would have a significant impact on its legislative power, since it would certainly affect the US Congress, the FASB and the SEC. IFRS is set by the IASB, meaning adoption requires authority for accounting standards to be relinquished to a supranational entity, placing NASBs in the position of agents or consultants of the IASB. Hail et al. (2010, p.573) suggest that:

> *"Such a delegation of standard-setting power to the IASB, by its very nature, poses numerous political challenges beyond the economic aspects that we have discussed, so far. Legislative bodies like the U.S. Congress have an innate resistance to give up power to a foreign authority or standard-setting body".*

Taking a different approach, in 2002 the EC mandated implementation of IFRS, which caused every jurisdiction in the EU to adopt these standards (EC 2000, 2002; Burlaud and Colasse 2011; IASB 2018b) because all EU members must comply with regulations issued by the EC, including the Fourth and Seventh EC Directives (EC 2016b). The EC has established mechanisms granting it the right to veto any future changes: subsequent amendments to IFRS must be endorsed by the EC, the European Parliament, the Standards Advice Review Group, EFRAG and the Accounting Regulatory Committee (Zeff and Nobes 2010; Van Mourik and Walton 2018). Also, EFRAG supports and participates in the IASB's standard-setting process (Deloitte Touche Tohmatsu 2014), thus promoting the EU's influence in deliberations regarding future changes to IFRS (Chand and Cummings 2008). As a result, IFRS is moving closer to developed countries and further from many developing jurisdictions. The EU example supports Cox's (2014) argument that jurisdictions adopting IFRS may protect themselves from loss of legislative power by requiring their NASBs to evaluate and, if necessary, modify IFRS before enacting the standards. Therefore, harmonisation of accounting regulations worldwide is difficult to achieve owing to the nature of decisions to adopt the IASB's accounting standards.

The examples of the US and the EC reveal that adoption or rejection of IFRS may not be due purely to economic factors, but may seek to protect national authority for accounting regulations. However, the EC's mandatory adoption of IFRS and the EU's 100 per cent adoption of these standards indicate that supranational entities may mandate such a move. Thus, influential entities other than national stakeholders and governments may influence NASBs' decision-making processes, as discussed in the next sub-section.

2.2.5 Influence of supranational entities on NASBs' adoption decisions

Previous studies have investigated IFRS adoption in a small number of developing countries, including Pakistan, Romania, Bangladesh and India (e.g. Ashraf and Ghani 2005; Mir and Rahaman 2005; Annisette 2004; Albu et al. 2011; Krishnan 2016, 2018). The World Bank may be seen as the main supranational lobbying entity promoting the use of IFRS, since it is a key supporter of the IASB's accounting standards (e.g. Mir and Rahaman 2005; Ashraf and Ghani 2005; Annisette 2004; Albu et al. 2011). Jurisdictions with high proximity, meaning they share similar historical and cultural preferences, may influence NASBs' decisions to adopt specific standards.

Albu et al. (2011) examine the development of accounting standards in Romania up to the adoption of IFRS. The first phase of Romania's accounting development was the adoption of accounting standards based on the French accounting framework. According to Albu et al. (2011), this was motivated by close economic and cultural relationships between France and Romania, and the fact that France's accounting system has been devised in accordance with the EC's Fourth Directive. Thereafter, in order for Romania to secure a World Bank loan, it was required to meet certain conditions imposed by the World Bank relating to the adoption of IFRS.[3] This requirement initiated the second phase of accounting standards development. Furthermore, since Romania was planning to join the EU, its NASB adopted only IAS/IFRS standards that complied with the Fourth and Seventh European Directives. Albu et al. (2011) interviewed two regulators, one of whom suggested that:

> *"Therefore, along with Romania's adhesion to EU, we have secured the conformity with the Fourth European Directive: everything which is compulsory in the directive is taken in the Romanian regulations, and also some optional provisions were taken. Where the directive had basic provisions or such provisions were completely missing, we took the provision in the IASs, but only to the extent that these provisions would not be against the provisions of the directive. Now we have many definitions, concepts,*

[3] According to Albu et al. (2011, p.85), "the World Bank imposed four conditions for granting financial assistance to Romania: (1) use of IAS by some (generally large) companies; (2) auditing of these companies by auditors applying International Standards on Auditing; (3) issuance of a guide for IAS implementation by the Ministry of Public Finances; and (4) establishment of an institution for financial auditing (leading to the establishment of the Chamber of Financial Auditors of Romania) that would endorse the International Standards on Auditing".

> *recognition criteria, measurement rules from the IFRSs"* (Albu et al. 2011, p.89).

The authors argue that, although the World Bank influenced the NASB's decision-making process during the second phase, the implementation of IFRS in Romania has been limited. This indicates that Romania's desire to join the EU strongly influenced how it adopted IFRS, because all the adopted standards comply with the EC's Fourth and Seventh Directives. Thus, in the case of Romania's adoption of IFRS, many supranational entities, including the World Bank and the EC, influenced its NASB's decision-making process, but the latter was more influential owing to Romania's desire to join the EU. However, although the authors interviewed various interested entities, they only interviewed two regulators, indicating a need for further studies to gain a deeper understanding of this issue. National stakeholders may not have experience or prior knowledge of influential environmental factors imposed on NASBs, since this type of influence is rarely documented in publicly available data (e.g. Hodges and Mellett 2002, 2012; Howieson 2009; Ram 2012; Ram and Newberry 2013, 2017).

Bangladesh is another example of a country where the World Bank has promoted use of the IASB's standards. Mir and Rahaman (2005) examine the motivation for wholesale adoption of IFRS in Bangladesh. In October 1999, the ICAB issued a plan to adopt IFRS after the World Bank granted it US$200,000 to enhance its capabilities for their adoption. Surprisingly, by the end of 1999, ICAB had already adopted 21 IAS standards, and 16 others were under consideration. This rapid adoption raises questions about whether each standard has been considered in the context of national historical, cultural and economic circumstances. Mir and Rahaman (2005) suggest that ICAB's adoption of 21 standards within a short time frame and with no modification indicates that it did not consult any other entity. One of their respondents argued that adoption of the IASB standards was political rather than beneficial:

> *"Although it appears like the adoption is initiated by SEC in actual fact it is initiated by the international agencies. The government tells us which standards to consider for adoption. It is a process that is really political ... You don't know the bases for the choice of standard for adoption. ... Money talks. It's all political"* (Mir and Rahaman 2005, p.826).

Critics of wholesale adoption observe that India, a neighbouring country with similar historical, cultural and economic conditions, has established its own accounting standards rather than endorsing wholesale adoption of the IASB’s accounting standards. Therefore, Mir and Rahaman (2005) suggest that ICAB would have been unlikely to adopt accounting standards that do not meet the needs of Bangladesh’s economic sector if it had not been pressurised or influenced by environmental factors. They also conclude that, as a result of this undemocratic approach and the absence of representation of entities other than ICAB, Bangladesh suffers from a lack of compliance with IAS standards. However, similarly to previous studies, the authors’ limited consultation of regulators may indicate either that the regulators supported adoption, or that discussions with regulators disclosed no further information.

Krishnan (2016, 2018) investigates India’s long convergence process with IFRS. She finds that India’s convergence plan was first introduced in 2000 “through indirect and ‘soft’ influences” on the national state (2018, p.316) by international entities such as the International Organization of Securities Commissions (IOSCO) and the United Nations Conference on Trade and Development (UNCTAD). The EU’s adoption of IFRS and the European Securities and Market Authority’s (ESMA) communication with regard to Indian companies listed on EU markets, accompanied by external pressure from IOSCO and UNCTAD, led to India’s announcement of an official deadline of 2011 for its convergence with IFRS. However, the nature of the convergence decision and controversial debates about these standards caused the deadline to be missed, with no public notification regarding the process or the causes of this delay. In 2012, India announced another deadline of 1 April 2013 for its convergence plan. Like the previous deadline, this was missed with no announcement or explanation, and 1 April 2016 was announced as another date for convergence. According to the IFRS Foundation (2017), although India has not adopted IFRS, many of its national accounting standards have been converged with these standards, indicating its progress toward convergence. According to Krishnan (2018), India’s long implementation period and cautious attitude toward convergence with IFRS was due to the attitudes of its trading partners, the US and Japan, toward these standards. The US’s rejection and Japan’s slow convergence plan indirectly caused significant delays to India’s convergence plan. This suggests that national governments may influence the behaviour of other jurisdictions’ NASBs toward the IASB’s accounting standards.

Previous studies have investigated various factors that may influence jurisdictions' behaviours toward the IASB's accounting standards, including IFRS, revealing that many environmental factors may influence NASBs' decision-making processes. They define general patterns and entities, including national stakeholders, governmental history and culture, as influential factors. However, the behaviours of supranational entities, including the World Bank and the EC, and other governments toward the IASB's accounting standards are also influential. For instance, the first phase of Romania's accounting development and Canada's adoption of IFRS provide examples of how national accounting history and culture influence adoption decisions. The US's reluctance to lose its authority and surrender its legislative power to a supranational entity such as the IASB shows the nature and complexity of such decisions. The influence of supranational entities, such as the World Bank in Bangladesh and the EC in the EU and Romania, provide examples of the influence of supranational entities on accounting regulations.

Thus, although general patterns may exist, explaining these phenomena requires in-depth investigation. This is because previous studies show that no theory or explanation can capture every feature of every phenomenon, nor perfectly explain all reasons behind all phenomena. Since the IASB drew on the conceptual framework and standards of IFRS but reduced their disclosure requirements and accounting options when it developed IFRS for SMEs, and because this study utilises the latter as a vehicle to understand NASBs' decision-making processes, it is necessary to review studies that investigate whether adopting IFRS standards led to or brought any advantages or disadvantages to preparers and users of financial statements. This is because if IFRS for SMEs is adopted, this may cause advantages and disadvantages similar to those of IFRS due to the fact that the IASB's accounting standards share a similar, although not identical, conceptual framework. These perceived expectations may drive or influence NASBs' decision-making processes and behaviours toward adoption of IFRS for SMEs, suggesting the relevance of reviewing studies that investigate IFRS standards, as discussed in the next section.

2.3 Usefulness of IFRS adoption and its influence on quality of financial statements

A considerable body of research has examined different jurisdictions' adoption of IFRS. A causal analysis of IFRS profiles by the IASB indicates that some jurisdictions that have adopted IFRS standards require all domestic, publicly-accountable entities to use these standards, while others permit some but not all such entities to do so, and a few neither require nor permit the use of IASB standards (IASB 2018b). Thus, not every country has adopted IFRS, and its implementation may differ according to each jurisdiction's view of the likely outcomes of adoption. Adopting IFRS may seem beneficial because it helps reduce cross-country differences; however, financial reporting quality is measured not only by the adoption of financial reporting standards, but also in terms of the usefulness, relevance and quality of information provided (De George et al. 2016). This section discusses the usefulness of IFRS adoption for financial statements.

2.3.1 Usefulness of IFRS adoption for reporting comparability

According to De George et al. (2016), empirical studies of the effect of IFRS adoption on comparability employ two alternative methods: examination of the observable outcomes of comparability (e.g. Brochet et al. 2013; Wang 2014) or direct measurement of comparability (e.g. Barth et al. 2012). In 2007, the SEC was considering allowing US public firms to file their financial statements according to IFRS, as a result of debate following approval for cross-listed non-US firms to do so (Barth et al. 2012).

Barth et al. (2012) and Liao et al. (2012) examine value relevance and accounting system comparability, and find that adoption of IFRS is associated with high comparability of financial statements. However, Barth et al. (2012) and Balsmeier and Vanhaverbeke (2018) indicate that higher comparability is associated with a country's enforcement system because, for companies located in a country with strong enforcement or where IFRS is mandatory, comparability is generally higher. Liao et al. (2012) conclude that in France and Germany, accounting numbers were comparable immediately after implementation of the standards, but this comparability later diminished. These results suggest that adopting these standards without supporting measures will not enhance comparability of financial statements, indicating a need to take other factors into consideration. Also, Liao et al.'s (2012) conclusion supports the view that adopting IFRS may help improve comparability in the short term, but that its effect in the long term is questionable. Barth et al. (2012) and Liao et al. (2012) are unable to draw conclusions regarding overall comparability since they only evaluate the usefulness of summary accounting values, meaning their use of a single measure of financial reporting comparability.

Unlike studies that directly examine the influence of IFRS adoption on comparability, Wang (2014) compares stock market reactions to firms that have yet to announce their earnings with similar foreign firms that have announced their earnings, where both report under the same standards. She concludes that abnormal price reactions to the two types of firm are strongly correlated if both firms use the same financial reporting standards (IFRS), whereas abnormality decreases if the firms use different reporting standards. However, Wang's (2014) findings are only significant for companies located in jurisdictions with strong enforcement systems, indicating that mere adoption of IFRS will not improve comparability (De George et al. 2016). According to Lopez-de-Silanes et al. (1998), enforcement systems are measured according to the effectiveness of the legal system, the level of corruption and the rule of law. Improving comparability of financial reporting requires a strong enforcement system accompanied by strong accounting standards.

In general, studies investigating capital-market effects report strong increases in comparability following the adoption of IFRS, while studies directly measuring comparability provide weak evidence (De George et al. 2016). Furthermore, previous empirical studies show that comparability does matter to investors, and particularly to foreign investors. However, simply adopting the same accounting standards globally will not enhance comparability, leading scholars to investigate whether adoption of IFRS influences cross country activities.[4]

2.3.2 Usefulness of IFRS adoption for cross-country investment

Since previous studies have highlighted the importance of financial comparability, especially for foreign investors, supporters of IFRS adoption argue that high-quality and comparable financial reporting under IFRS will increase cross-country investment (e.g. EC 2002; IASB 2009; Amiram 2012; Yu and Wahid 2014; AICPA 2018; Al-

[4] Scholars have examined the definition of IFRS adoption and overuse of the term "adoption". In defining a jurisdiction as an "adopter", many concepts must be evaluated, including whether a jurisdiction has partially converged, fully converged, partially adopted, adopted but modified, or adopted IFRS standards as issued by the IASB. Other issues, such as implementation mechanisms for future amendments, translation issues, and which entities are permitted or required to use the standards, must also be considered. These are less relevant to this study because it focuses mainly on the decision-making process leading to the outcome, rather than the outcome itself. For further information see, for example, Evans (2004); Nobes (2006, 2013); Zeff and Nobes (2010); Saucke (2015).

Htaybat 2018). Those who support this assumption argue that it takes time and resources for foreign investors to understand and comprehend various versions of GAAP. Previous scholars (e.g. Revsine et al. 2011; Al-Htaybat 2018) describe accounting rules as a network of conventions, guidelines, procedures and rules developed by accounting practitioners and NASBs that may ease communications between various entities if unified. Revsine et al. (2011) highlight that the main purpose of GAAP is to ensure that companies' financial statements clearly illustrate their economic preferences and conditions. Unlike local investors, differences between local GAAPs mean that foreign investors must overcome substantial information barriers (De George et al. 2016; Al-Htaybat 2018).

Scholars have therefore examined whether enhanced comparability as a result of adopting IFRS will, in turn, improve cross-country investment. DeFond et al. (2011) and Covrig et al. (2007) examine whether adoption of IASs improves foreign mutual fund investment. Both studies conclude that adoption of IFRS results in an increase in foreign mutual fund investment. However, DeFond et al. (2011) argue that the increase is higher in jurisdictions that have credible implementation, and especially for companies with increased accounting uniformity. DeFond et al. (2011) define implementation credibility as management's faithful application of IFRS, but do not elaborate on what types of enforcement system lead to greater uniformity.

Taking a slightly different approach, Yu and Wahid (2014) examine how accounting distance, in terms of differences in accounting standards, affects investment decisions by global mutual funds. They note that, once accounting distance decreases as a result of the implementation of IFRS by investees and investors, the willingness of investors to invest in foreign mutual funds increases. For example, their empirical test suggests that an accounting distance increase of a single standard deviation between South Africa and the US led the latter's investors to underestimate the former's companies by 19 per cent. Also, when the adoption of IFRS occurs only in the investor's jurisdiction and decreases accounting difference, investors tend to invest in foreign mutual funds. This suggests that investors' familiarity with investees' financial reporting standards increases foreign investment.

Other research has examined the influence of IFRS adoption on US investors' decisions to invest in foreign equities. Khurana and Michas (2011) and Shima and

Gordon (2011) find weak or no correlation between the adoption of IFRS and the tendency of US investors to invest in foreign markets, unless this adoption is accompanied by a strong enforcement system. Khurana and Michas (2011) also argue that countries that have adopted IFRS where there is little similarity between local accounting standards and IFRS and jurisdictions with strong incentives to report high-quality financial information, also influence US investors' tendency to invest in foreign markets.

Since one goal of adopting IFRS is to establish an internationally understandable set of accounting standards, Florou and Pope (2012) examine whether mandatory adoption influences the institutional holdings of investors worldwide. They observe a 1.4 per cent incremental increase in ownership, on average, immediately after the mandatory adoption of IFRS, and claim that, since most firms have active investors who rely on financial reporting numbers, their observation relates directly to mandatory adoption. However, the authors' results do not distinguish whether this increase is due to investors' familiarity with IFRS or its high quality. Amiram (2012), on the other hand, examines these potential factors in the context of cross-border investment. He finds that investors from jurisdictions using IFRS would rather invest in other jurisdictions that have adopted these standards than in jurisdictions that have not yet done so. Also, countries that have adopted IFRS and have strong investor protection and low levels of corruption experience higher levels of foreign investment. These results support the finding of previous studies that investors' familiarity with investees' financial reporting standards increases the likelihood of foreign investment.

Previous empirical studies that have examined the correlation between adoption of IFRS and cross-border investment provide evidence that the former does, in fact, increase the latter (De George et al. 2016). However, although early studies attribute increases in cross-border investment to comparability under IFRS, later studies attribute such increases to investors' familiarity with IFRS. The results of recent studies suggest that adoption of these standards is not necessarily the main cause of increases in cross-border investment, because investors' familiarity with other standards will also increase such investment. Harmonisation of accounting regulations may reduce entities' cost of capital, as discussed in the next sub-section.

2.3.3 Usefulness of IFRS adoption for the cost of capital

Previous studies of the influence of IFRS standards adoption on the cost of capital have relied on a few, mostly EU, countries because these allowed voluntary adoption of IAS/IFRSs prior to their mandatory implementation in 2002 with an effective date of 2005 (De George et al. 2016; Bassemir 2018).[5] Comparison of entities that have voluntarily adopted, mandatorily adopted or rejected adoption provides additional information on the influence of adoption on the cost of capital. Daske (2006) and Daske et al. (2013) investigate how the cost of capital is influenced by mandatory and voluntary adoption of IAS/IFRS. Unlike Daske's (2006) and Bassemir's (2018) studies, which focus only on German firms, Daske et al.'s (2013) sample includes firms from 30 countries. These studies argue that adopting internationally-recognised accounting standards reduces the cost of capital.

However, Daske et al. (2013) further argue that mere adoption will not drive such benefits; rather, they categorise firms as "serious" adopters or "label" adopters. A firm is classified as a "label" adopter if its level of observable incentives is weak or non-existent around the adoption of IAS/IFRS and it has made no significant changes to its reporting policies. "Serious" adopters are firms with strong observable incentives that have made substantial modifications to their reporting guidelines. The authors argue that firms classified as "serious" adopters experience a greater increase in liquidity and a decrease in the cost of capital compared with "label" adopters. These results support the argument that simply adopting IFRS will not lower the cost of capital unless other factors, such as firms' reporting incentives, are also aligned.

Scholars have also examined the influence of IFRS on loan structure. Kim et al. (2011) examine the effects of voluntary adoption of IFRS on structured loan contracts and loan ownership in the international loan market. They argue that voluntary adoption of IFRS reduces information ambiguity between lenders and borrowers, which in turn enables lenders to assess borrowers' credit quality more effectively. They claim that loans issued to firms that have voluntarily adopted IFRS incur lower interest rates, are larger and have longer maturity periods. In addition, such firms attract more foreign investors than firms using local GAAP.

[5] Studies discussed in this section use different samples from different countries and dates, ranging from the 1990s to the 2010s. Studies investigating voluntary adoption of IFRS standards often exclude companies that were mandated to adopt them.

In contrast to studies examining the effects of voluntary adoption of IFRS on the cost of capital, Chen et al. (2015) examine the consequences of compulsory implementation for the contract terms of bank loans globally. The authors maintain that mandatory adoption of these standards may result in either less or more asymmetric information between borrowers and lenders. Adoption encourages recognition of losses and gains in a timely manner and fair value accounting. Timely recognition of losses and gains decreases information risk and the costs of monitoring, which decreases information asymmetry. On the other hand, shifting from rules-based to principles-based accounting standards leads to greater management flexibility, which in turn increases information risk and the costs of monitoring. Chen et al. (2015) find that borrowers that have mandatorily adopted IFRS experience higher interest rates and shorter maturity periods, and that the likelihood of loans based on collateralisation increases.

Florou and Kosi's (2015) study extends previous research by comparing the terms of private loans and public bonds. They note that compulsory adoption of IFRS enhances access to public bonds and decreases interest rates. However, they find no relationship between mandatory adoption and private loans. They attribute these results to public reliance on publicly available financial reporting, while private borrowers rely on private communications. Previous studies of the effects of IFRS adoption on the cost of debt reveal mixed results. De George et al. (2016) provide possible explanations for these contradictions, arguing that studies focusing on voluntary adoption may suffer from endogeneity concerns, while studies focusing on mandatory adoption may suffer from contaminating events. Furthermore, previous studies have used different samples, and the presence of specific countries in the sample may have affected their results.

Accordingly, scholars investigating the usefulness of IFRS adoption reach conflicting views on whether the observed benefits generally relate to features and characteristics of these standards, or are driven by other external factors, including a strong national enforcement system, companies' own incentives and investors' familiarity with investees' financial reporting. In other words, jurisdictions' adoption of other accounting standards may lead to similar benefits, including harmonisation of accounting regulations and reductions in the cost of capital, because these benefits are not driven primarily by the IASB's accounting standards, but rather by other external factors (De George et al. 2016).

The contradictory evidence of IFRS studies raises many questions with regard to the adoption of IFRS for SMEs. For instance, given the lack of robust empirical results to confirm the usefulness of IFRS adoption, this issue may be more severe in the case of IFRS for SMEs. The IASB's main goal is to set accounting regulations that satisfy public interests, yet empirical results only partly or weakly support its claims with regard to the benefits of IFRS adoption. The IASB used the IFRS framework in issuing IFRS for SMEs (IASB 2003) and did not consult with SMEs worldwide, indicating that it has a less clear understanding of their needs compared with those of public companies. Its claim that adopting IFRS for SMEs will benefit SMEs worldwide (IASB 2018a) should therefore be taken with caution.

Since this study uses IFRS for SMEs as a vehicle to investigate and deepen understanding of EU NASBs' decision-making processes, it is essential to discuss SMEs' history with regard to issues relating to accounting regulations and jurisdictions' adoption or incorporation of accounting standards issued by the IASB and its predecessors. This is relevant because issues relating to SMEs' accounting regulations that had been deemed resolved resurfaced owing to jurisdictions' adoption of IFRS standards. Therefore, the IASB developed IFRS for SMEs in an attempt to solve SMEs' financial reporting issues. This suggests the latter's relevance to understanding whether NASBs' perceptions of these issues and the extent to which they would be overcome by the standard's adoption may influence their behaviour toward it. This, in turn, may explain NASBs' behaviour toward IFRS for SMEs. The next section briefly discusses SMEs' issues with regard to accounting regulations.

2.4 History of issues relating to SMEs' accounting regulations

SMEs' main concern was outdated legislation that required them to comply with standards used by public companies, regardless of differences in size, making SMEs' financial reporting increasingly extensive and complex (Keasey and Short 1990; World Bank 2004a; Evans et al. 2005; Rennie and Senkow 2009; Sian and Roberts 2009). Increased complexity and lack of distinction between public companies and SMEs burdened the latter (AICPA 1981; Keasey and Short 1990; Son et al. 2006; Evans et al. 2005; Rennie and Senkow 2009; Sian and Roberts 2009). According to AICPA (1981), NASBs had over-detailed accounting standards, which required in-depth disclosures, contained too many separate standards, used complicated accounting measurements, and did not satisfy SME users' and preparers' needs. Thus, SMEs' preparation of their financial reports in accordance with national GAAP was deemed too burdensome and costly. Scholars (e.g. Lippitt and Oliver 1983; Keasey and Short 1990; Jarvis et al. 1996; Collis and Jarvis 2000; Rennie and Senkow 2009) highlight that SMEs' compliance with GAAP and complicated accounting regulations was onerous because their users' needs were different from those of public companies, and they had to seek external help to produce their accounting statements in accordance with GAAP. Many SMEs suffered considerable increases in their costs of reporting because they lacked internal trained accountants, which led to outsourcing (Campbell 1978; Lippitt and Oliver 1983; Collis and Jarvis 2000). Thus, the increased costs of complying with irrelevant accounting standards included outsourcing book-keeping and higher audit fees, which were deemed unnecessary (Chazen and Benson 1978; Hepp and McRae 1982; Keasey and Short 1990; Jarvis et al. 1996; Collis and Jarvis 2000; Fearnley and Hines 2007).

Previous studies (e.g. Campbell 1978; Epaves 1978; Mosso 1981; Keasey and Short 1990; Son et al. 2006; Rennie and Senkow 2009) have investigated the usefulness of SMEs' compliance with complex accounting standards such as GAAP. Campbell (1978) argues that such compliance did not improve the informational content of SMEs' financial statements. GAAP requirements mandated information disclosures that did not cater to satisfying SMEs' preparers and users (Epaves 1978; Mosso 1981; Keasey and Short 1990; Evans et al. 2005). Hence, Hepp and McRae (1982) question the usefulness of SMEs' compliance with certain complicated accounting standards, as well as whether statements produced in accordance with GAAP are needed at all by SMEs and their users.

Users of SMEs' financial statements can be classified as internal or external (Nair and Rittenberg 1983; Lowe 1987; Jarvis et al. 1996; Evans et al. 2005; Son et al. 2006). Internal users focus primarily on running the enterprise and can request necessary information owing to their direct involvement (Berry et al. 1993; Jarvis et al. 1996; Collis and Jarvis 2000; Evans et al. 2005; Sian and Roberts 2009); thus, financial statements prepared in accordance with accounting standards are not required. External users, on the other hand, including major suppliers, banks and credit agencies, are able to request special-purpose reports that focus mainly on SMEs' capability to repay their debts (Nair and Rittenberg 1983; Lowe 1987; Berry et al. 1993; Collis and Jarvis 2000; Marriott and Marriott 2000; Evans et al. 2005; Son et al. 2006; EC 2010). Scholars (e.g. Berry et al. 1993; Jarvis et al. 1996; Collis and Jarvis 2000; Marriott and Marriott 2000; Son et al. 2006) highlight that little is known about how SMEs and their users utilise financial statements, which is an issue for NASBs. They argue that it is not known whether major lenders use SMEs reports similarly to those of large companies.

In response to increased concerns regarding the complexity of SMEs' accounting standards, NASBs issued different reporting requirements to ease their burden (Hepp and McRae 1982; Evans et al. 2005; Fearnley and Hines 2007). For instance, the EC's Fourth and Seventh Directives and the UK accounting standards were issued based on quantitative measures for compliance, meaning that as companies grow, they must comply with more complicated regulations and standards (Devi and Samujh 2015). The notion of different reporting requirements originated from the concept that different types of company should be subject to different accounting standards (World Bank 2004b, 2004a; Jarvis et al. 1996; Collis and Jarvis 2000; Evans et al. 2005). Devi and Samujh (2015) further argue that some companies should be exempt from certain accounting standards, while others should be completely exempt from preparing accounting statements. The notion of two-tier reporting was considered a challenge to the concept of unified accounting standards for all companies, regardless of size (Cheney 2003). Although different reporting requirements for SMEs were seen as a necessary solution to ease their burden, others were concerned that this solution might cause SMEs to be regarded as second-class citizens (Cheney 2003).

However, the temporary relief in SMEs' accounting burden was interrupted by the issuance of IFRS, as a result of which the problem of SMEs' accounting standards resurfaced and intensified (Devi and Samujh 2015; Ram 2012; Saucke 2015). Since the issuance of IFRS in 2001, many jurisdictions have adopted it (IASB 2017). Jurisdictions' adoption or conversion of IFRS superceded their SMEs' accounting requirements, leading them to question how this move would impact on their SMEs' financial reporting (Devi and Samujh 2015; Ram 2012; Saucke 2015). In 2009, the IASB issued IFRS for SMEs as a solution to SMEs' financial reporting problems, and since then, many jurisdictions have adopted or used the standard as a blueprint for their national accounting standards (IASB 2018c). However, little is known about the decision-making process and the motivation for the IASB's issuance of IFRS for SMEs (e.g. Burlaud and Colasse 2011; Danjou and Walton 2012; Ram 2012; Ram and Newberry 2013), nor about the usefulness of the standard to SMEs (e.g. Kaya and Koch 2015). Therefore, the rest of this chapter focuses on IFRS for SMEs, since this study utilises it as a vehicle to understand NASBs' decision-making processes.

2.5 The IASB development of IFRS for SMEs

Issuing accounting standards is described as a complicated process that does not take place in void (e.g. Fogarty et al. 1994; Young 1995; Hodges and Mellett 2002, 2012; Mir and Rahaman 2005; Hail et al. 2010). In the case of the IASB, accounting standards setting is even more complicated, and is influenced by many different cultures, events and supranational entities, because it must manage the influence of multiple jurisdictions with various levels of economic growth (Howieson 2009; Camfferman and Zeff 2015). Many scholars question the legitimacy of the IASB's process for issuing IFRS for SMEs (e.g. Danjou and Walton 2012; Burlaud and Colasse 2011; Ram and Newberry 2013, 2017).[6] Burlaud and Colasse's (2011) criticism is that politics has regained a role in issuing financial reporting standards, whereas other scholars, such as Danjou and Walton (2012), state that politics has never been absent from this field. The IASB is generally regarded as the worldwide standard setter for financial markets, and its mass support indicates that it does not lack legitimacy (Danjou and Walton 2012). Nonetheless, its process for issuing financial accounting standards is not entirely understood. Its lack of proper documentation of the influential external environmental factors it faces raises questions about the case of other NASBs.

Motivated by academic debate over the legitimacy of the IASB's actions, Ram and Newberry (2013, 2017) examine the IASB's due process for the issuance of IFRS for SMEs. They find that the IASB was divided over the IFRS for SMEs project, which was titled the "SME project". Interviews with key players also show that the IASB was influenced by its environment, including supranational entities such as the World Bank, to adopt the SME project. In addition, the IASB was concerned that if it did not make a move to issue financial reporting standards aimed at SMEs, other legislators,

[6] Since this study does not examine the IASB's decision-making process, detailed discussion of ostensible reasons for the IASB's issuance of IFRS for SMEs is not presented. For further reading on this issue, see, for example, Ram (2012); Larson and Herz (2013); Ram and Newberry (2013, 2017).

such as the United Nations' Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), might do so, which might affect its authority and ability to control the SME financial reporting arena. Furthermore, Ram and Newberry (2013, 2017) argue that since the IASB's focus was mainly on issuing financial reporting standards applicable to publicly accountable entities, reductions in disclosure requirements to meet the capabilities of specific groups of entities might threaten the IASB brand.

However, the IASB incorporated the SME project into its agenda in 2003. Ram and Newberry (2017) attribute the IASB's change of focus from publicly accountable entities to SMEs to that fact that such a move might significantly influence its brand, because board members held significantly different influential power. According to Ram and Newberry (2017), former IASB chair, Sir David Tweedie was unhappy when he learned that the IASB's technical team members wanted to bar the SME project from its agenda. In other words, they were trying to stop the IASB's active involvement with SMEs. However, Tweedie intercepted this move and ensured that the SME project was granted agenda entry, which led to the IASB's involvement with it. At that time, the chair also had authority to appoint staff, indicating authoritative power not only to set the tone of the IASB's project, but also to structure its membership. In order to prevent board members who were against introducing the SME project from being directly involved or causing delays, Tweedie appointed Paul Pacter as technical director, granting him special powers that allowed him to report directly to Tweedie without going through the usual reporting channels, which included reporting to senior technical members. Having introduced the SME project to the agenda, it was necessary to determine its framework.

Since the IASB's aim was not to issue a different set of financial reporting standards, but a simpler version of them to be used by SMEs, so it used the IFRS standards and framework to issue IFRS for SMEs (IASB 2003, 2009). Thus, it appeared to assume that SMEs' uses and needs with regard to financial statements were identical to those of public entities. However, the IFRS conceptual framework deals mainly with companies that are publicly accountable (Evans et al. 2005), focusing on decision usefulness and investor protection (Chua and Taylor 2008) rather than on stewardship. The IASB in 2010 substituted the concept of "reliability" with that of "representational faithfulness" (Zeff 2013; IASB 2015). The former is concerned with monitoring principles, while “the latter is concerned with capturing the substance of an economic phenomenon” (Whittington 2008, p.500). The IASB eliminated reliability and stewardship from its conceptual framework because these principles did not support the current direction of its standard setting (O’Brien 2009). Thus, using IFRS as a conceptual framework for IFRS for SMEs seemed problematic, and would at most only partially satisfy SMEs’ needs.

Members of the IASB were uncertain whether it would be appropriate to use the IFRS framework as a conceptual framework for IFRS for SMEs, since the needs and uses of SMEs’ financial reports are different from those of publicly-accountable entities (IASB 2003; Ram 2012, 2017). In 2008, an ED of IFRS for SMEs was field tested by 116 entities from 20 jurisdictions. Analysis of the field test comments reveals that implementation of fair value was difficult, disclosure requirements were too burdensome, and additional simplification was needed (Deloitte Touche Tohmatsu 2008). Nevertheless, the IASB’s (2007a) development of IFRS for SMEs was based on the conceptual framework of IFRS, because developing a completely new accounting standard based on SMEs’ needs would have required a fresh conceptual framework, and new financial reporting objectives, financial information, and measurement and recognition principles. The IASB also claimed that “a ‘fresh start’ approach would be costly and time-consuming and ultimately futile” (IASB 2007a, p.27). The IASB employed a top-down approach to issuing IFRS for SMEs mainly because issuing accounting standards through a bottom-up approach would have been costly and allegedly unjustifiable (IASB 2007a).

As a result, the IASB’s motivation for and approach to issuing IFRS for SMEs explain why many scholars (Burlaud and Colasse 2011; Ram 2012; Ram and Newberry 2017; Gassen 2017) have questioned the IASB’s legitimacy regarding the issuance of IFRS for SMEs, challenging whether use of the standard is appropriate worldwide and providing a possible explanation for NASBs’ behaviour toward it. Jurisdictions must therefore carefully consider whether to adopt IFRS for SMEs. Also, lack of demand from SMEs for the standard’s adoption may be due to the way in which it was developed. Previous studies (e.g. Gassen 2017; Sellami and Gafsi 2018) indicate that the IFRS framework does not seem to be attractive to SMEs because most do not have significant international activities, nor are they interested in becoming publicly-listed, seeking foreign investors, or being part of an international group (e.g. Eierle and Haller

2009; Aboagye-Otchere and Agbeibor 2012; Bartůňková 2013; Hoxha 2014; Brouwer and Hoogendoorn 2017; Di Pietra 2017; Fülbier et al. 2017; Gallo et al. 2018; Ghio and Verona 2018; Buculescu and Dutescu 2018; Sellami and Gafsi 2018). The perceived usefulness of IFRS for SMEs to SMEs and their users is discussed in the next section.

2.6 Perceived usefulness of IFRS for SMEs

Following increased adoption of IFRS for SMEs, scholars have started to question its usefulness. Supporters of a single set of financial reporting standards argue that accounting harmonisation may help improve cross-country activities (e.g. EC 2002; IASB 2009; Amiram 2012; Yu and Wahid 2014; Baetge et al. 2016; AICPA 2018; Al-Htaybat 2018). However, as previously mentioned, Hopwood (1994) suggests that the benefits of the IASB's accounting standards have been taken for granted rather than being systematically explored, indicating a limited understanding of these standards. This assumption may also apply to IFRS for SMEs, because many jurisdictions have adopted or permitted it, despite the IASB's top-down approach in developing the standard. This section discusses the appropriateness of IFRS for SMEs to various SME groups in different jurisdictions.

2.6.1 Costs relating to adoption of IFRS for SMEs

Scholars have investigated whether the benefits of adopting IFRS for SMEs outweigh the costs, since adoption decisions seem not to be costless (e.g.Chand et al. 2015; Gassen 2017). Chand et al. (2015) investigate Fijian accounting professionals' perceptions of the benefits of adoption. The vast majority of their respondents agreed that it is costly, complicated and unjustifiable, and the authors conclude that, although adoption may be justifiable for SMEs operating in developed countries, compliance with IFRS for SMEs is unjustifiable in Fiji.

Studies by Hoxha (2014) and Bartůňková (2013) examine whether the adoption of IFRS for SMEs may provide future benefits in Albania and the Czech Republic respectively. They find that small companies do not believe that adoption will improve SMEs' decision-making processes; rather, they believe that adoption will be burdensome. Hoxha (2014) finds that SMEs are unwilling to invest in new accounting standards such as IFRS for SMEs, because this increases the cost to small entities by approximately 400 to 600 euros per year, a cost regarded as unjustifiable and unbeneficial. In addition, medium-sized entities estimate the initial cost of implementing IFRS for SMEs to be approximately 3,000 euros, with an additional annual cost of approximately 2,000 euros. Like small entities, most medium-sized companies are unwilling to adopt the standard because they believe it is irrelevant to their decision-making and stewardship. However, Hoxha (2014) and Bartůňková (2013) agree that, unlike SMEs, large entities tend to support its adoption. They suggest that this is because large entities may plan to become publicly traded companies, and implementing IFRS for SMEs may ease this transition. Another possible explanation is that, unlike small and medium-sized entities, large entities can afford to train and hire experienced employees. The results of these studies depend on the distinction between small, medium-sized and large entities. However, the authors do not clarify the criteria used for their data analyses since definitions of SMEs vary (Pacter 2008). This may lead to misinterpretation of these findings, since small entities in the UK may not resemble those in jurisdictions elsewhere.

Scholars have investigated motivations for adopting IFRS for SMEs across multiple jurisdictions (e.g. Kaya and Koch 2015; Saucke 2015). They find that, if a jurisdiction has previously adopted IFRS for listed companies, the likelihood of adopting IFRS for SMEs is higher because this may reduce their financial reporting burden. The authors also argue that NASBs' behaviour toward IFRS for SMEs is driven mainly by cost–benefit considerations. The usefulness of these findings is limited because they are influenced primarily by perceived costs and benefits, potentially disregarding the influence of countries' specific environmental factors, including authority and national accounting history and culture, on NASBs' decision-making processes. Thus, in-depth investigation of EU NASBs' decision-making processes with regard to IFRS for SMEs is needed. Another benefit that the IASB claimed would derive from adoption of its SMEs standard is ease of access to foreign investors. This issue is discussed in the next sub-section.

2.6.2 Usefulness of the adoption of IFRS for SMEs for cross-country activities

Since adopting a single set of financial reporting standards may help improve cross-country activities (e.g. EC 2002; IASB 2009; Amiram 2012; Yu and Wahid 2014; AICPA 2018; Al-Htaybat 2018), Eierle and Haller (2009) investigate whether adoption of IFRS for SMEs might ease the international transactions of German SMEs participating in international activities. They find that a large percentage of the import and export activities of their sample was with non-EU countries, indicating a high level of international activities. However, German SMEs do not believe that using comparable accounting standards benefits their international activities. Eierle and Haller (2009) find that German SMEs are reluctant to support implementation of IFRS for SMEs owing to the perceived costs of adoption and because they do not believe that international suppliers and customers care about their financial reports.

Similarly, Ghanaian SMEs and micro-entities rarely engage in international activities or have international structures, so internationally comparable financial reporting is unnecessary for them (Aboagye-Otchere and Agbeibor 2012). Aboagye-Otchere and Agbeibor (2012) also find that, although IFRS for SMEs discusses 27 topics, only eight are relevant to Ghana's SMEs. They conclude that SMEs in other African countries will have similar needs to those of Ghana. Similarly, Bartůňková (2013) finds that most SMEs in the Czech Republic do not support the use of a single set of financial reporting standards and believe that implementing IFRS for SMEs will not enhance international trade or foreign investment. However, since these studies focus on single jurisdictions, their conclusions may be affected by cultural and environmental biases.

2.6.3 Stakeholders' perceptions of the adoption of IFRS for SMEs

Scholars such as Kiliç et al. (2014) and Uyar and Güngörmüş (2013) investigate Turkish accounting professionals' perceptions of IFRS for SMEs. They find more supporters than opponents of adopting IFRS for SMEs because their participants argued that IFRS for SMEs is better than Turkish accounting standards. However, more than a third of their participants had no knowledge of IFRS for SMEs. Similarly to previous studies, Buculescu and Stoica (2016) investigate perceptions of IFRS for SMEs by Romanian accounting professionals, finding that 40 per cent of participants believed that adoption of IFRS for SMEs is beneficial, 43 per cent believed that adoption is costly and unjustifiable, and 16 per cent had insufficient knowledge to assess whether the implementation of IFRS for SMEs would be an improvement on current accounting standards. Hoxha's (2014) investigation of the perceptions of Albanian SME preparers regarding the adoption of IFRS for SMEs also reveals that most SME preparers have insufficient knowledge of IFRS for SMEs. However, unlike previous studies, he finds that SME preparers do not desire any changes to current accounting standards because they do not feel confident or capable of switching to new standards.

Although Uyar and Güngörmüş's (2013) study shows that supporters of adoption outnumber opponents, 51 per cent of their respondents had no opinion on whether IFRS for SMEs should be adopted. Taken together with participants' lack of knowledge of IFRS for SMEs, their conclusion that adopting IFRS for SMEs may drive economic benefits should be taken with caution. To make a proper assessment of the expected benefits and whether they outweigh the costs, participants must have a reasonable knowledge of IFRS for SMEs, yet the vast majority of respondents had insufficient information to assess the potential impact of adoption. Furthermore, Kiliç et al. (2014) claim that Turkey adopted IFRS for SMEs in 2010 for application in 2014; however, it has not announced the adoption in its IFRS profile, but makes a clear statement that IFRS for SMEs has not yet been adopted (IFRS Foundation 2016g). If it has not adopted the standard, this casts doubt on Kiliç et al.'s (2014) findings, because adoption of IFRS for SMEs may raise participants' awareness of the standard when forced to incorporate it into their financial reports. It is unclear why Turkey may have misrepresented its adoption status in its IFRS profile. In addition, large numbers of participants in previous studies, regardless of their location, believed that adopting IFRS for SMEs would be costly, complicated and require too much disclosure. This raises the question of why jurisdictions are rapidly adopting IFRS for SMEs. Scholars recommend that the IASB should simplify IFRS for SMEs to meet the varying capabilities of SMEs in developing countries.

2.7 Summary and Conclusion

This chapter has discussed previous studies of NASBs' environmental factors, including national stakeholders, governments, history and culture, and supranational entities including the World Bank and the EC. NASBs' environments differ significantly, leading to diverse behaviours with regard to IFRS. Jurisdictions have either adopted, rejected or used these standards as a blueprint for their national accounting regulations. This indicates that, although general environmental patterns may exist among NASBs, these patterns cannot capture every aspect of each phenomenon under investigation. However, such patterns may provide a preliminary understanding of NASBs' decision-making processes and guide future investigations of phenomena relating to standard setting.

Previous studies of the usefulness of IFRS have produced contradictory results. Early studies attribute the observed benefits to features and characteristics of the standards, while later studies suggest that other factors, such as national enforcement systems and entities' own reporting incentives, may give rise to the observed benefits. Discussion of these studies is relevant for two reasons. First, since IFRS and IFRS for SMEs share a similar, although not identical, conceptual framework, the perceived advantages and disadvantages of the former may influence NASBs' perceptions of and behaviours toward the latter. Second, studies of IFRS have produced contradictory results with regard to the economic benefits of adoption, despite the IASB's main focus on publicly accountable entities and scholars' recognition of the IASB as the world standard setter for these entities, which raises many concerns with regard to the adoption of IFRS for SMEs. This is because, unlike IFRS, the IASB's approach to developing IFRS for SMEs was top-down and focused weakly on SMEs and their users, suggesting that adopting this standard may not bring significant economic benefits, or may at best reveal inconsistent results similar to those of IFRS.

Furthermore, previous studies suggest that adopting any standards other than IFRS, accompanied by environmental factors including strong national enforcement systems, will produce economic benefits, because although the IASB's accounting standards are of a high quality, simply adopting these standards will not cause significant or observable positive changes. This suggests that simply adopting IFRS for SMEs without supportive measures or environmental factors, including national enforcement systems, will not bring economic benefits, because such benefits are derived not only from the standards themselves, but from a combination of factors. This indicates that adopting any standards other than IFRS for SMEs accompanied by the same environmental factors would lead to observable benefits, raising questions about NASBs' choice and motivation for adopting IFRS for SMEs.

Since this study uses IFRS for SMEs as a vehicle to investigate and deepen understanding of NASBs' decision-making processes, it is also necessary to review studies that have investigated the standard's usefulness. The vast majority of IFRS for SMEs studies highlight its inappropriateness for use by all SMEs worldwide. The fact that IFRS was used as a model for IFRS for SMEs may explain why the benefits of the latter have been questioned. This move by the IASB seems to have assumed that SMEs' needs for and uses of financial statements are similar to listed companies, but previous studies challenge this assumption. They show that SMEs' financial statements are prepared mainly for the purposes of management (e.g. Collis and Jarvis 2000) and taxation (e.g. Sian and Roberts 2009), whereas listed companies prepare financial statements in order to provide external investors with otherwise inaccessible financial information (Saucke 2015). Nevertheless, shortly after the issuance of IFRS for SMEs, many jurisdictions such as South Africa, which was the first country to adopt it within a month (Mackenzie et al. 2011, p.viii), not only adopted IFRS for SMEs, but did so with no modification. This raises the question of whether these jurisdictions did, in fact, evaluate the standard during the adoption decision-making process.

Although many publicly-available documents discuss the accounting standards-setting process, these documents rarely provide a comprehensive picture of the decision-making process, since influential environmental factors are often undocumented (e.g. Hodges and Mellett 2002; Howieson 2009; Perera 1989; Ram 2012; Ram and Newberry 2013, 2017). Ram and Newberry (2013) show that the IASB was under significant pressure from national and supranational entities during the issuance of IFRS for SMEs, yet these environmental factors were not obvious to the public since they were undocumented. This indicates a need for more research to deepen understanding of NASBs' decision-making processes (e.g. Hodges and Mellett 2002, 2012; Howieson 2017; Ram and Newberry 2013, 2017; Saucke 2015; Pawsey 2017; Baudot 2018; Klein and Fülbier 2018), especially in relation to SMEs.

In any study, it is important to decide on an appropriate approach based on the research questions under investigation and the data available (Broadbent and Laughlin 2013). The next chapter discusses the research methods used in this study to investigate and gain a deeper understanding of NASBs' decision-making processes.

Chapter 3: Research approach and methods

3.1 Introduction

Chapter 2 reviewed previous literature on the influence of environmental factors on NASBs' decision-making processes regarding IFRS and IFRS for SMEs. This chapter explains the research approach used in this study to investigate NASBs' decision-making processes with regard to IFRS for SMEs, while Chapter 4 will discuss institutional theory, power theory and legitimacy theory and the process of creating the skeletal theoretical framework of this study.

According to Patton (2002b), researchers' philosophical assumptions determine their perceptions of how organisations and various actors comprehend their social worlds. Myers (2013) defines philosophical assumptions as a fundamental component of the research design. A rigorous philosophical understanding allows researchers to map out each step necessary to identify suitable methods of data collection, analysis and interpretation (Creswell 2013). According to Ahrens and Chapman (2006), rigorous philosophical assumptions ensure that researchers' ontological and epistemological positions align with the research methods used to investigate the chosen research questions.

Laughlin (1995) discusses various theoretical and methodological options with regard to epistemology, ontology, methodology, human nature and society. Based on Burrell and Morgan's (1979) study, he argues that, although their two-by-two matrix of social science approaches is too simplistic,:

> *"It is quite probable that they have indeed isolated many, if not most, of the key domains for choice. Indeed a position on being (ontology), on the role of the investigator (human nature), on perceptions of society (society), on perceptions on understanding (epistemology) and ways to investigate the world (methodology) are implicit in the various approaches to empirical research"* (Laughlin 1995, p.66).

He reclassifies these elements and suggests that researchers take a low, medium or high position with regard to theory, methodology and change.

This chapter is organised as follows. Section 3.2 discusses Laughlin's (1995) middle-range thinking (MRT) approach. Section 3.3 describes the research methods utilised in this study, and the various steps taken to gather primary data. Section 3.4 explains the collection of archival and secondary data. Section 3.5 details the process of data analysis. Finally, Section 3.6 summarises and provides conclusions on the topics covered in this chapter.

The next section discusses Laughlin's methodological choices.

3.2 Laughlin's methodological choices

Broadbent and Laughlin (2013) and Laughlin (1995) define methodology as scholars' prior assumptions regarding their roles and subjectivity in the process of investigating a phenomenon and the impact of theory on the choice of research methods. Laughlin (1995) uses the term "choice" to illustrate that scholars must choose theories, methodologies and make changes in accordance with the nature, aims and goals of their research questions, as shown in Figure 3.1. The next sub-section discusses these choices in more detail.

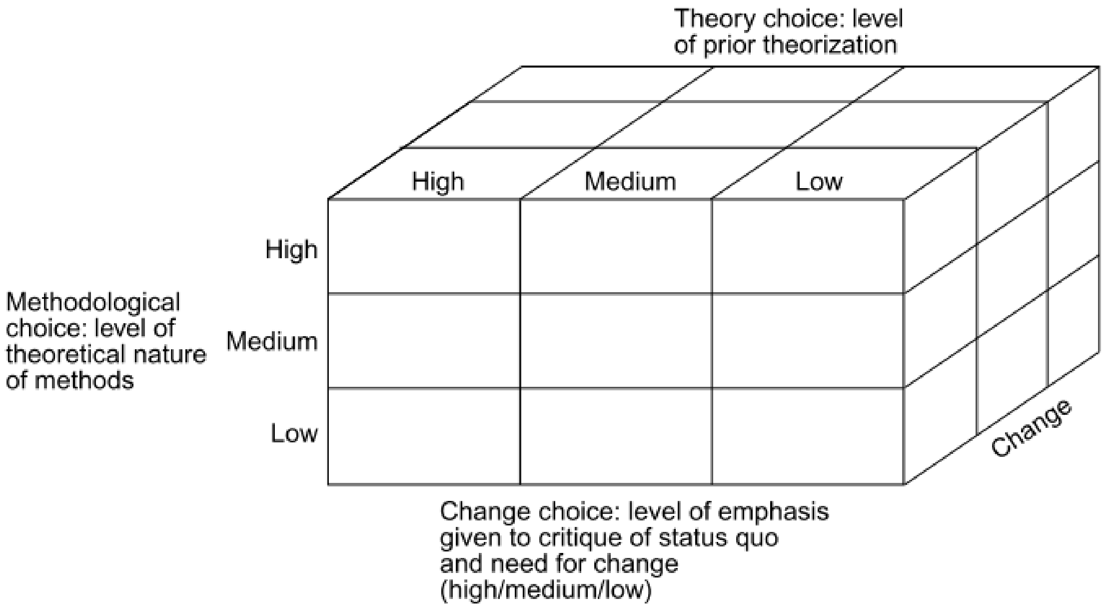

Figure 3.1: Laughlin's methodological choices

Source: Laughlin, 1995, p.68

3.2.1 MRT approach

According to Laughlin's (1995) three dimensions of choice, scholars using a high level of theory, such as positivists, perceive that the reality of the accounting field can be examined objectively and the findings generalised to other phenomena. Previous literature is significant for them because hypotheses are based on previous findings and existing theories. The results are used to examine hypotheses to falsify a theory. Positivists also argue that scholars should be detached while investigating, following predetermined sets of research methods with a theoretical framework (Laughlin 1995; Broadbent and Laughlin 2013). However, Laughlin (1995, p.83) argues that positivist accounting scholars' quest for generalisations with regard to accounting theory is a "considerable leap of faith", and scholars with alternative assumptions question the validity of positivists' findings because, unlike the theory of gravity which disregards any tangible differences, accounting is a social practice that takes place with various social actors, so ability to generalise the research results is limited.

On the other hand, scholars with a low position on theory, such as interpretivists, argue that reality is subjective, made by human communications and interactions with one another. According to Chua (1986), the accounting field is considered a social practice in which actors generate empirical phenomena. Interpretivists argue that actors' understanding of specific phenomena is subjective because individuals are unique, hindering the usefulness of existing theories to investigate or examine current phenomena, and leading to limited generalisability (Neuman 2013). Since interpretivists do not seek generalisability, they often investigate a phenomenon to gain a deeper understanding of its empirics by seeking the perspectives of actors who have directly experienced, interacted or engaged with it (Hopper and Powell 1985). Interpretivists also argue that scholars should be free from any theoretical framework; their choice of research methods is subjective in investigating an empirical phenomenon. However, Broadbent and Laughlin (2013) criticise interpretivists' assumption that every phenomenon is unique, because this entirely rejects any potentially shared attributes between phenomena. In doing so, they disregard general patterns that may exist with regard to social science that might guide scholars in their investigations of new phenomena (Laughlin 1995).

Both positivist and interpretivist methodologies have weaknesses. According to Laughlin (1995), accounting theory is occasionally described as complex and vague. Using a narrow definition of methodology may cause inadequate comprehension of the phenomenon under investigation. In the case of positivists, their predetermined or fixed perceptions may mean that their surveys or methods of documentary analysis do not accommodate issues that have inadvertently not been considered (Broadbent and Laughlin 2013). In contrast, interpretivists' perceptions with regard to methodology and their weak preference for predetermined rules, owing to a fear that rules will inevitably be restrictive, may shift their emphasis to a rational or theocratical stance, indicating that their analysis of empirical phenomena may be based on their perceptual powers (Laughlin 1995). Thus, duplication of others' research is almost impossible because individuals' perceptual powers differ (Broadbent and Laughlin 2013).

Laughlin's (1995) dimension of change is associated with scholars' understanding of the status quo. According to Laughlin (1995, p.68), this dimension "relates to high to low levels of critique with regard to the status quo and the need for change in the phenomena being investigated". Scholars in a high position would argue that there is no perfect situation, so everything is in need of change, whereas scholars in a low position would argue otherwise, because they consider all situations to be flawless, so nothing needs to change (Laughlin 1995). However, both argue that organisations and societies prefer consistency so do not favour change (Chua 1986), although they provide different explanations for this view. Positivists insist that scholars should not interfere by making "moral judgments" of organisations' structure because this may hinder their objectivity (Chua 1986). Interpretivists, on the other hand, argue that scholars should accept empirical phenomena as taken for granted, indicating a lack of need for any change to the investigated phenomena. Some scholars (e.g. Laughlin 1987; Broadbent and Laughlin 1997) question and critique positivists' and interpretivists' assumptions of change and argue that research should uncover inequality in society, in order to improve and transform it for the better.

In order to minimise the limitations of positivism and interpretivism, Laughlin (1995, 2004, 2007) and Broadbent and Laughlin (2014) suggest that accounting scholars should take a middle ground with regard to theory, methodology and change. According to Laughlin (1995), MRT lies between positivist and interpretivist approaches, aiming to gain advantages from both perspectives while minimising their disadvantages.

MRT inspires scholars to use available theories to help guide their investigations of current accounting phenomena, which is deemed to be an advantage of positivism, while simultaneously also considering that accounting phenomena are not identical, which is a strength of interpretivism with regard to theory (Laughlin 1995). The middle ground adopted in MRT takes a realist approach to social science, but also recognises that social reality differs from natural reality (Laughlin 1995; Broadbent and Laughlin 2017). Broadbent and Unerman (2011, p.9) define reality in social science as “inter-subjective consensus” among various actors, using subjective judgments of an objective reality to understand accounting phenomena. For instance, there is a consensus among accountants with regard to how a specific transaction should be recorded and reported, so most accountants would be able to comprehend financial statements, despite the fact that many assumptions and judgments are involved in their creation (Deegan and Unerman 2011). Since accounting is a social practice, a single theory cannot explain every aspect of every phenomenon in the accounting field (Laughlin 1995; Broadbent and Laughlin 2017). However, the MRT approach allows scholars to identify or develop “skeletal theories” which may illuminate general patterns in the empirical results of an accounting phenomenon (Laughlin 2004).

With regard to methodology, the MRT approach allows scholars to modify the “skeletal theory” and continually redefine the study’s design while investigating a phenomenon (Laughlin 1995, 2004, 2007; Broadbent and Laughlin 2014). Thus, scholars’ engagement with and investigation of a phenomenon should establish some rules and structure so that duplication of research by subsequent scholars is possible (Broadbent and Laughlin 2013). According to Broadbent and Laughlin (2013, p.51), the MRT approach uses “critical discursive analysis” as a methodological choice, involving researchers in an expansive process in order to reach deeper understandings of the phenomena under examination and develop responses or plans to change if necessary. MRT accepts descriptive data such as documents, and qualitative data such as interviews, depending on the phenomenon under investigation and the purpose of the study (Laughlin 2004).

With regard to the change dimension of MRT, Laughlin (1995, 2004, 2007) and Broadbent and Laughlin (2014) argue that the middle position enables scholars to propose changes, but in order to do so, they must very carefully consider the phenomenon under investigation prior to making such changes. They also suggest that scholars must take multiple steps prior to their proposed changes, including understanding the investigated phenomenon based on available theoretical frameworks and previous literature. It is important for researchers to acquire mutual understandings of investigated phenomena based on their engagement with them, and to propose changes in accordance with this acquired mutual knowledge. Therefore, unlike positivists and interpretivists, the MRT approach takes a middle position regarding theory, methodology and change, maximising their advantages and minimising their disadvantages. However, this approach has been criticised (e.g. Dey 2002; Lowe 2004; Roslender 2013), as discussed in more detail in the next sub-section.

3.2.2 Limitations of MRT

Many weaknesses have been identified in Laughlin's (1995) MRT approach. According to Lowe (2004) and Roslender (2013), Laughlin's (1995) study focuses on organising dominant schools of thought in the accounting field. They argue that his findings are questionable because many accounting scholars use sophisticated methodologies to examine accounting phenomena, whether they are positivists or interpretivists. However, their criticism should be considered with caution, because the aim of Laughlin's (1995) study was not to classify dominant schools of thought in the accounting field, but to highlight the existence of many different research approaches. Researchers must therefore carefully evaluate their choices prior to engaging with the phenomena they intend to investigate, because their choices will influence how they interpret and understand them.

Lowe (2004) also criticises Laughlin's (1995) MRT approach and claims that his use of rhetorical language to propagate MRT and undermine other approaches has led to its dominance and encouraged many scholars to embrace and use it. Dey (2002, p.113) claims that Laughlin's (1995) study should be considered with caution because it does not elaborate exactly "where, when and to what extent skeletal theories might apply". He argues that embracing a skeletal theory completely may damage research results by ignoring other existing theories.

Laughlin (2004) responds to these issues by arguing that researchers have indeed taken many approaches other than his, and that they have complete freedom to choose any approach if they believe it fits their study and the phenomenon under investigation. However, choosing a particular approach inevitably requires the rejection of other positions, so choices must inevitably be made, leading to the fact that "all empirical research is partial and incomplete" (Laughlin 2004, p.264). Laughlin (2004) stresses that use of a skeletal theory should not determine the empirical findings of a phenomenon, but should rather guide scholars during their investigations, because a skeletal theory is meaningless without the "flesh" of empirical data. The MRT approach permits researchers to modify their "skeletal theory" and continually redefine the study's design, and encourages critical discursive analysis. Thus, the flexibility of the "skeletal theory" allows for its modification and further development while investigating a phenomenon, suggesting that it does not lead to empirical findings, but rather helps guide and provide deeper understandings while permitting explorations of issues that researchers have not considered or have accidently omitted (Laughlin 1995, 2004, 2007; Broadbent and Laughlin 2014). Since the MRT approach was developed, it has been used in many studies, indicating its usefulness for examining accounting phenomena. This issue is discussed in more detail in the next sub-section.

3.2.3 Justification for using the MRT approach

Three factors motivated the utilisation of the MRT approach in this study. First, NASBs' decision-making processes have been described by many scholars (e.g. Hodges and Mellett 2002, 2012; Howieson 2017; Baudot 2018; Klein and Fülbier 2018) as a "black box", and their calls for further investigation indicate limited understanding of these processes. Unlike studies that seek to predict these processes, this study aims to gain a deeper understanding of them in relation to EU NASBs. According to Laughlin (2004), previous studies show that "skeletal" patterns may exist in various phenomena. These can be used to develop conceptual frameworks, but they will never fully capture every aspect or feature, nor the diversity between them. In this study, the MRT approach permitted the use of previous literature to create a conceptual framework, and preliminary understanding of NASBs' decision-making processes led to deeper understanding following engagement with the field. Previous literature may inform scholars of various possible theories to guide the process of analysis and investigation. Although empirical generalisations are impossible, investigation of new phenomena and empirical data may enhance current theories (Laughlin 2004). This study seeks to do so by investigating EU NASBs' decision-making processes with regard to their diverse behaviours toward IFRS for SMEs.

Second, the MRT approach classifies accounting as a socially constructed practice (Laughlin 1995, 2004, 2007; Broadbent and Laughlin 2014), which is fundamentally significant for this study. NASBs' decision-making processes are influenced by their environment (e.g. Fogarty et al. 1994; Young 1995; Hodges and Mellett 2002, 2012; Mir and Rahaman 2005; Hail et al. 2010; Krishnan 2018). Thus, NASBs must interact with various entities, showing the social nature of their processes. MRT allows investigation of various environmental factors, including history and culture, which may influence NASBs' decision-making processes.

Third, since Laughlin's (1995) development of the MRT approach, scholars have utilised it to investigate various phenomena on the accounting spectrum (e.g. Laughlin 1995; Broadbent and Laughlin 1997; Broadbent et al. 2010; Bracci and Llewellyn 2012; Kraus 2012; Abramik 2016), including accounting standard setting (e.g. Broadbent and Laughlin 2002; Khadaroo 2005a; Johansen and Plenborg 2018), indicating its suitability for and relevance to this study. Broadbent and Laughlin (2002) employ an MRT approach to investigate the ASB's accounting standard setting with regard to private finance initiatives (PFI). They did not use the MRT approach to build and test hypotheses with empirical details; "rather the theoretical framework is a type of language that guides, yet is also guided and amplified by, the empirical descriptions" (p.624). Hence, it is possible to reshape the theoretical framework based on empirical results. They based their theoretical framework on previous literature, fleshed out with empirical results mainly from written submissions to the ASB with regard to its ED of the PFI standard. They find that investigating changes to PFI only at a technical level would have excluded many social issues that were deemed crucial for understanding the influence of society on the ASB's accounting standard-setting process. The ASB's position on proposed PFI changes contradicted those of the UK government and accounting profession, which endangered its legislative power. Although the government may at times have seemed to be disinterested because it had relinquished its legislative power to the ASB, this was not the case with regard to PFI. It issued an interpretation of the ASB's accounting standard, not only to prevent debate over which body was responsible for UK legislation, but also to permit exclusion of investment through PFI off the balance sheet. The government's interpretation provided a "face-saving" device that protected the status quo of the UK government and the accounting profession.

Similarly to Broadbent and Laughlin (2002), Bracci and Llewellyn (2012) used the MRT approach to examine the influence of accounting reforms on social care providers in two Italian entities. They find that individuals' interpretations of the concept of accountability influenced their performance of their duties. They also find that different interpretations of the concept of accountability gave rise to two different groups of service providers, "Territoriali" and "Residenziali". The "Territoriali" followed a traditional approach to social care, engaging with, supporting and seeking to modify the behaviours and characteristics of their clients; whereas the “Residenziali” often outsourced and had standardised care packages in the form of daily, residential and home-based services. The authors argue that the reason for their differences was that, unlike the “Residenziali”, who largely accepted and embraced the new accounting reform, the “Territoriali” refused to embrace the imposed changes and preferred to follow a traditional care approach. These studies recognise the importance and usefulness of MRT for investigating and understanding empirical phenomena in light of existing “skeletal theory”. Accordingly, this study embraces the MRT approach to examine EU NASBs’ decision-making processes with regard to their diverse behaviours toward IFRS for SMEs, as shown in Figure 3.2.

Therefore, this study follows Laughlin’s (1995, 2004, 2007) MRT approach paradigms, including the acquisition of a general preliminary understanding of NASBs’ decision-making processes through the review of previous literature discussed in Chapter 2, as well as field engagement which facilitated the development of a theoretical framework to investigate the phenomenon, to collect and use qualitative data, including interviews and publicly available documents, and to conduct discursive analysis of empirical data based on structured rules. The empirical phenomenon under investigation shaped and reshaped the study’s design and the theoretical framework throughout the process.

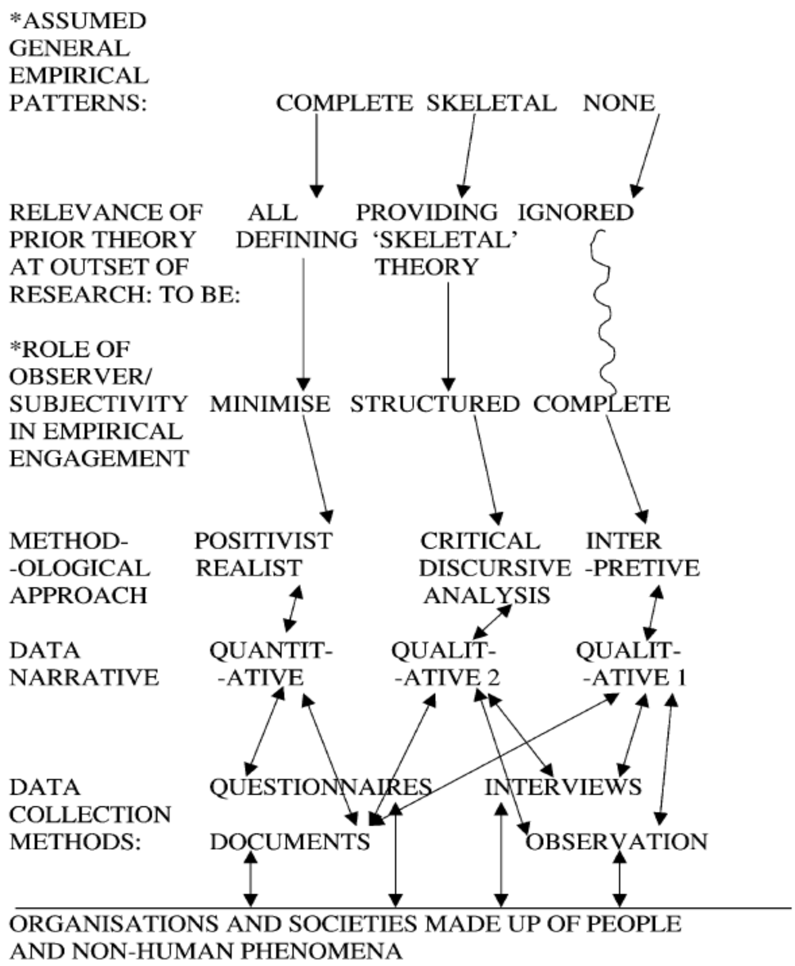

Figure 3.2: Nature of the research approach

Source: Laughlin, 2004, p.272

The remainder of this chapter discusses the use of qualitative research methods, data collection, ethical considerations and the process of data analysis in this study.

3.3 Research method

According to Laughlin (1995, 2004, 2007), researchers must make choices, including choosing a suitable methodology capable of examining the phenomenon and satisfying the aim of the study. Positivist scholars often choose a quantitative approach, using predetermined research instruments (Saunders et al. 2009; Yilmaz 2013; Mason 2018). They often seek generalisations and embrace a deductive approach to explain social phenomena using arithmetical data (Yilmaz 2013; Bryman and Bell 2015). In doing so, social actors are prevented from expressing their perceptions in their own words, so positivists fail to consider actors' emotions, experiences, thoughts and frames (Bryman and Bell 2015). Positivists often argue that researchers should play a neutral role in the research, so they seldom engage directly with the phenomenon under investigation, but instead rely on remote or inferential empirical methods to explain it (Chua 1986; Denzin and Lincoln 2000; Patton 2002a).

Interpretivist scholars, on the other hand, often choose a qualitative approach because they are “concerned with process, context, interpretation, meaning or understanding through inductive reasoning” (Yilmaz 2013, p.313). They often seek to understand and describe the phenomenon under investigation by capturing members’ perceptions and experiences and communicating with participants using interviews or observations (Saunders et al. 2009; Bryman and Bell 2015; Mason 2018). This, in turn, results in in-depth understandings of individuals’ lives and influential factors on their natural settings, which would not be provided by predetermined or standardised categories of analysis. In order to establish in-depth understandings, interpretivists often use an inductive research design with interactive and naturalistic research strategies, including case study and narrative analysis (Saunders et al. 2009). According to Easterby-Smith et al. (2012), various types of observations and interviews are dominant sources of data in qualitative studies, and researchers are directly involved with the phenomenon under investigation.

A qualitative research approach was adopted in this study for many reasons. First, its aim was to gain a deeper understanding of NASBs’ decision-making processes with regard to their diverse behaviours toward IFRS for SMEs. The nature of the research question is that it seeks to “describe” and “understand” a process, which are features of a qualitative approach (Yilmaz 2013). Many individuals are involved in setting national accounting standards, so focusing on technical accounting issues would lead to neglect of significant environmental factors. This led to the second reason for a qualitative approach: NASBs’ decision-making processes are often influenced by their environments (e.g. Fogarty et al. 1994; Young 1995; Hodges and Mellett 2002, 2012; Mir and Rahaman 2005; Hail et al. 2010). Individuals’ experiences and thoughts are significant for gaining an in-depth understanding of their organisations’ processes, which is another characteristic of the qualitative approach (Saunders et al. 2009; Bryman and Bell 2015). Lastly, MRT prompts the use of a qualitative approach to investigate accounting phenomena because accounting is a social practice that takes place with various different social actors (Laughlin 1995, 2004, 2007; Broadbent and Laughlin 2014), emphasising individuals’ relevance and importance to the accounting field. Previous studies (e.g. Hodges and Mellett 2002, 2012; Howieson 2017; Baudot

2018; Klein and Fülbier 2018) describe NASBs' decision-making processes with regard to issuing and accepting accounting regulations as a process that takes place in a "black box", calling for scholars to interview NASB members and investigate their processes further. This study answers this call by conducting interviews with former and current members of EFRAG, ASB, FRC, ASCG, OIC and DASB in order to gain a deeper understanding of their decision-making processes with regard to IFRS for SMEs.

The next sub-section discusses interviews as a primary source of data for this study.

3.3.1 Semi-structured interviews

According to Richards (1996), interviews are a useful source of data because they may provide insightful information on a specific event, or on issues that may intentionally or unintentionally be excluded from or undocumented in publicly available data. Previous scholars define three types of interviews: unstructured, semi-structured and structured (e.g. Noaks and Wincup 2004; Silverman 2006, 2015; Saunders et al. 2009; Myers 2013). In structured interviews, interviewers only discuss predetermined sets of questions, so the flow of the interview will be determined beforehand, and interviewees will be unable to provide further details or discuss any issues accidently omitted by the researcher. These are similar to predetermined questionnaires (e.g. Noaks and Wincup 2004; Silverman 2006, 2015; Saunders et al. 2009; Myers 2013). Unstructured interviews involve relatively informal, briefly prepared and mostly open-ended questions, and the interviewees will determine the flow and the issues discussed (e.g. Noaks and Wincup 2004; Silverman 2006, 2015; Saunders et al. 2009; Myers 2013), indicating a lack of structure and consistency with regard to the issues discussed.

According to Myers (2013), semi-structured interviews adopt the best aspects of both structured and unstructured interviews, while minimising the risks of the two approaches. The benefits of conducting semi-structured interviews are that they provide some structure and consistency between interviews, while also allowing for some improvisation during the interview process (e.g. Silverman 2006, 2015; Saunders et al. 2009; Myers 2013; Mason 2018). This flexibility offers interviewees opportunities to provide individual insights and discuss issues not considered by the researcher, while previously prepared questions provide some structure to the interviews. Similarly, interviewers may ask new questions not considered prior to the interview which may seem important during the discussion (Myers 2013). Thus, the flow of the interview has some structure, yet still offers some freedom for fruitful discussion. Scholars suggest that it is inappropriate to establish a sample size for this type of critical research; rather scholars should reach “saturation” (e.g. Myers 2013; Silverman 2014; Mason 2018). They define “saturation” as the discovery of no new insights in subsequent interviews, at which point the researcher should stop interviewing.

According to Mason (2010), many issues influence the sample size and number of interviews in qualitative studies. In general, the sample size is much smaller in qualitative studies than in quantitative studies. For instance, as more interviews are conducted, less new information tends to be discovered, so conducting further interviews will not lead to the uncovering of new information (Ritchie and Lewis 2004). This is because recording a code or discovering certain types of information once is sufficient, and all that matters is to ensure that it becomes part of the analytical framework (Ritchie and Lewis 2004). Since qualitative studies are not concerned with empirically generalising the research results (e.g. Laughlin 1995), frequency in qualitative studies is rarely relevant, because information or data appearing once are as valuable and beneficial as those appearing numerous times for understanding the phenomenon under investigation. Lastly, qualitative studies require considerable work because appropriate critical analysis of a vast number of interviews is very time-consuming (Mason 2010).

This study utilised semi-structured interviews as a method of data collection, similarly to previous studies of NASBs’ decision-making processes (e.g. Mir and Rahaman 2005; Albu et al. 2011; Ram and Newberry 2017; Krishnan 2018). The next sub-section discusses the development of the interview protocol used in this study.

3.3.2 Interview protocol

In addition to determining what type of interviews to conduct, researchers must also categorise their interview questions. Ritchie and Lewis (2004) define four types of interview questions: introductory questions, opening (general and surface) questions, in-depth (specific and detailed) questions and winding-down questions (mainly suggestions for important questions not discussed in the interview, and snowball questions regarding potential future interviewees). These types of question were used in drafting the interview questions for this study. Appendices A and B presents the interview protocol for EFRAG and NASB members.

Adoption of the MRT approach allowed the use of previous literature to gain a preliminary general understanding of NASBs' decision-making processes. The interview protocol was driven mainly by key issues and general patterns discussed and illuminated by previous studies and publicly available documents (e.g. IFRS profiles and comment letters) that were deemed relevant to the research phenomenon, including IFRS. This process enabled the identification of general patterns that guided investigation of EU jurisdictions' diverse behaviours in relation to IFRS for SMEs.

With regard to the interview protocol, the first question was an opening question relating to participants' responsibilities and involvement in their organisations. The second and third questions generally investigated NASBs' decision-making processes with regard to adoption or non-adoption of IFRS for SMEs and participants' perceptions of their organisations' processes and final outcomes. The fourth question discussed the advantages and disadvantages of adopting the standard from their perspectives as NASB members, and how these influenced the final outcome. The fifth and sixth questions sought to identify and discuss NASBs' interactions with various entities, and the boards' perceptions of these entities and of the standard's adoption. The seventh question discussed NASBs' interactions with the IASB and EC in more detail. The eighth question discussed how NASBs' interactions with identified relevant entities influenced their final outcomes. The ninth question explored interviewees' perceptions of other NASBs' behaviour toward IFRS for SMEs. The tenth and eleventh questions discussed NASBs' environmental factors, including politics and culture. The last two questions wound up the interviews by requesting further suggestions of issues not discussed during the interviews, and of further potential interviewees.

The research questions of this study were stimulated by the previous literature. For instance, the general skeletal patterns of previous studies provided useful information for the first research question (*what was NASBs' decision-making process with regard to adoption of IFRS for SMEs?*), which was drawn from studies including those of Broadbent and Laughlin (2002), Eierle and Haller (2009), Ram (2012), Ram and

Newberry (2013, 2017), Uyar and Güngörmüş (2013), Kiliç et al. (2014) and Krishnan (2016). The second research question (*what were NASBs' perceptions of the advantages and disadvantages of IFRS for SMEs and their influence on the adoption decision?*) was drawn from general skeletal patterns of studies by Bartůňková (2013), Hoxha (2014), Chand et al. (2015), Kaya and Koch (2015), Saucke (2015) and Gassen (2017). The last research question (*which entities and factors influenced NASBs' decision-making processes in the case of IFRS for SMEs, and to what extent?*), benefitted from the general skeletal patterns, and information was drawn from Broadbent and Laughlin (2002), Hodges and Mellett (2002, 2012), Mir and Rahaman (2005), Howieson (2009, 2017), Albu et al. (2011), Burlaud and Colasse (2011), Danjou and Walton (2012), Ramanna (2013), Ram and Newberry (2013), Collis et al. (2017), Di Pietra (2017) and Fülbier et al. (2017).

Although previous literature was used in order to establish general skeletal patterns for this study, some issues were not considered during this phase, but the MRT approach allowed for their exploration. For instance, after conducting a few interviews, an interesting question developed from discussion and data analysis which was added to the interview protocol and helped facilitate in-depth discussions of interviewees' perceptions of their organisations' final outcomes. Thus, the findings of this study helped develop and reshape the research design, and the skeletal theoretical framework did not lead the findings, but rather guided and was guided by the empirical results. The framework helped strengthen the research and allowed issues inadvertently missed during the preparation phase to be captured. Prior to conducting and gathering interviews, some further steps were necessary, as discussed in the next sub-section.

3.3.3 Process of conducting semi-structured interviews

Prior to engaging directly with the phenomenon under investigation, a few steps were needed to enable the interviews to be conducted properly, including preparation of an interview protocol and the collection of interviewees' contact details. The next sub-section discusses the method used to collect NASBs' contact details.

3.3.3.1 Collection of NASBs' contact details

The first step in gathering contact details was to identify former and current members of the ASB, FRC and EFRAG. Publicly available documents on their websites facilitated this process, including annual reviews, annual reports and minutes of meetings. Similar lists were not made for ASCG, OIC and DASB owing to a lack of time and publicly available data. After manually collecting the names of board and technical members and any general information about them, Google searches were conducted to gather their contact details. These included many search options for each potential interviewee. For instance, one search included the name of the potential interviewee followed by the name of the board of which s/he was a member. If no result was found, another search was carried out using other information gathered, such as previous experience or the names of other organisations of which they were members. The internet search engine helped gather details of work addresses, telephone numbers, email addresses and/or LinkedIn accounts. LinkedIn and email addresses were used as the main contact method for sending invitation letters and making further arrangements prior to the interviews.

With regard to potential participants' email addresses, although these were occasionally provided by their organisations, in most cases they were not publicly available, and verifying them proved to be difficult. For instance, each organisation had its own format for employees' email addresses, such as using the first name followed by a dot and the last name, or vice versa, so there were many potential combinations. These combinations were tested for each individual identified as a member if their current occupations were known. In case of an invalid email address combination, the sent email bounced back after a certain length of time, and the email was then resent using a different combination. If the email had not bounced back after a couple of days, this indicated that the combination was correct.

The internet search engine helped identify many LinkedIn accounts under the same name. In order to ensure that the individuals' LinkedIn accounts belonged to members of the organisations under investigation, verification mechanisms were used, which included searching for personal pictures from other websites, including those of their organisations, and comparing them with their profile pictures. Also, previous occupations and experiences listed under their LinkedIn profiles were compared with publicly available documents, including CVs and the websites of previous employers.

Once contact information had been gathered for possible interviewees, the next stage was direct involvement with the phenomenon under investigation. However, owing to the nature of studies involving interviews, ethical issues might arise during the research process. Thus, prior to direct contact with potential interviewees, ethical issues were considered. The next sub-section discusses these in more detail.

3.3.3.2 Ethical considerations

In qualitative studies, researchers often rely mainly on human participants' responses for their data, so ethical issues and dilemmas may arise (Guillemin and Gillam 2004; Mason 2018). The researchers' role in investigations of social phenomena is not limited to data gathering and analysis, but must take account of participants' wellbeing. They must thus develop a research design that balances the research goals and participants' rights.

Ethical issues may arise from the nature of the research phenomenon under investigation, technical issues, the necessary data, the method of data analysis and/or specific characteristics of participants (Cohen et al. 2007; Mason 2018), so each stage of the research process may give rise to ethical issues. Accordingly, scholars must carefully plan their research process in order to ensure participants' safety and wellbeing throughout the investigation. With regard to this study, several ethical issues that might harm possible participants were deemed relevant, including privacy, deception, anonymity and confidentiality.

Privacy is defined as individuals' freedom to determine the time, place, situations, and extent to which their beliefs, thoughts, perceptions are withheld or shared by others (e.g. Ruebhausen and Brim 1965; Livingstone 2008; Mason 2018). In order to safeguard participants' privacy, researchers must not discuss questions that may include or lead to disclosure of sensitive, private and personal information unless participants consent to providing such information. In this study, if interviewees requested a copy of the interview protocol, it was first indicated that the interview did not require any preparation in advance, but simply brief recollections of previous experience, so the protocol was not essential. However, in rare cases, interviewees insisted on receiving the interview protocol beforehand, and in such cases this was provided in order to eliminate any feelings of anxiety or embarrassment and to satisfy their requests.

In order to avoid deceiving participants, Vanclay et al. (2013) and Mason (2018) recommend that scholars should use informed consent forms that explicitly state that participation is entirely optional and that participants are free to withdraw at any time and at any stage of the research, in which case the collected data will not be used in the study and will be destroyed. Walford (2005) and Mason (2018) define anonymity as a requirement to keep participants' identify safe and prevent others from identifying their responses. Therefore, the researcher should avoid disclosing any unique characteristics that might easily identify them. For instance, in this study, NASBs have board chairs, and identifying them as chair would make it easy to identify them, so such characteristics are not divulged. Walford (2005) and Mason (2018) also define confidentiality as participants' right to keep information to themselves and not share it with others. For instance, during interviews, participants may discuss and disclose specific information to prove a point or further discuss an issue, but they may classify such information as confidential. In such cases, researchers must not use the information provided in their research, regardless of its value. According to the BERA (2004, p.8):

> *"The confidential and anonymous treatment of participants' data is considered the norm for the conduct of research. Researchers must recognize the participants' entitlement to privacy and must accord them their rights to confidentiality and anonymity, unless they or their guardians or responsible others, specifically and willingly waive that right. In such circumstances it is in the researchers' interests to have such a waiver in writing. Conversely, researchers must also recognize participants' rights to be identified with any publication of their original works or other inputs, if they so wish. In some contexts it will be the expectation of participants to be so identified".*

The last step prior to engaging directly with the phenomenon under investigation was to secure ethical approval from the University of Bristol's Ethics Committee. Many steps were required to achieve this approval. For instance, various documents, including the interview protocol, consent form, research proposal and invitation letter were sent to the committee. The committee provided feedback and mandated certain changes and amendments to these documents, including clarification of the nature of the research. Once the required changes had been made and the committee was satisfied that this study would not cause any harm to potential participants, ethical approval was granted. This study adheres strictly to these ethical rules.

In light of previous studies and in line with the requirements of the University of Bristol's Ethics Committee, the following precautions were taken. First, before conducting the interviews, every interviewee was provided with sufficient information in written form regarding the purpose of the research. Second, every interviewee was required to complete a consent form before the commencement of each interview. Appendices C and D present the consent form and invitation letter based on the University of Bristol's research ethics guidelines. These explicitly indicate that anonymity, privacy and data confidentiality will be respected. Third, the nature of the project and the invitation process ensured that participation was voluntary; however, it was made clear not only that participation was optional, but also that participants were free to withdraw from the project at any time. If subjects chose to withdraw after their interviews, it was made clear to them that any responses they had provided would be removed from the study and destroyed confidentially. However, no such issue was encountered during this study because none of the interviewees asked to withdraw.

Fourth, permission was sought to record the interviews on two occasions: on the consent form and before the interview began. Permission was granted for the recorded interviews and any supplementary data to be used for the purposes of this study. Collected data were stored on the researcher's computer in password-protected files. In addition, participants' names were anonymised directly after each interview to ensure that interviewees could not be identified by a third party. If interviewees refused to be recorded, detailed notes could have been taken instead and would be kept in a locked filing cabinet in a locked room. Fifth, interviewees' permission was sought to transcribe the interviews, and soft copies of the transcripts were sent to them by email, providing them with an opportunity to elaborate and confirm the accuracy of the transcriptions. Lastly, in line with the University of Bristol's research ethics policies, all data will be appropriately destroyed seven years after completion of the research.

Having considered ethical issues and received ethical approval, the next stage in the research process was direct engagement with the phenomenon under investigation. The next sub-section discusses the process of contacting the interviewees and conducting the interviews.

3.3.3.3 Contacting interviewees

One of the main issues in this study was to identify individuals involved in or responsible for decisions on IFRS for SMEs, because this information was not publicly available. In order to minimise this issue, the contact details of all individuals listed in publicly available documents were gathered for the period 2009 to 2015, because IFRS for SMEs was officially published by the IASB in 2009 (IASB 2009; Ram 2012, 2017), EFRAG conducted its comparability study between the standard and the Fourth and Seventh EC Directives in 2010 (EFRAG 2010a, 2010b; see Sub-section 6.2.1 for more detail), and the UK and Ireland adopted the standard with major modifications in 2013, with an effective date of 2015 (IASB 2018c; IFRS Foundation 2016f, 2016h).

A total of 127 individuals was identified with regard to the FRC and its predecessor, the ASB, and 217 individuals for EFRAG, of which 92 and 138 individuals respectively had either a valid LinkedIn account and/or email address. Identified individuals had various roles within their organisations, including members of the board, project directors and technical members. However, EFRAG had a group dedicated to SMEs entitled the Small/Medium Entities Working Group (SMEs working group).

The existence of various groups within organisations indicated that individuals would have different roles and responsibilities. EFRAG's board members were responsible for all decisions made and positions taken at an organisational level (EFRAG 2016a). Its Technical Expert Group (TEG) was responsible for providing EFRAG's board with expert advice on financial reporting issues. Its advice was not compulsory but in the form of recommendations after careful consideration of the organisation's due process (EFRAG 2016b). EFRAG's project directors were responsible for preparing papers for discussion by the TEG with regard to IFRS and IFRIC interpretations and possible future standards to be developed by the IASB (EFRAG 2009a). The role of the SMEs working group was to prepare discussion papers, and provide inputs, suggestions and recommendations on issues relating to the Fourth and Seventh EC Directives (78/660/EEC and 83/349/EEC), IFRS for SMEs and any other issues relating to SMEs (EFRAG 2009b).

However, the ASB's board members and technical team responsibilities are no longer publicly available because it was taken over by the FRC. The FRC's board members' responsibilities are also not publicly available because its website does not include any details of their responsibilities. However, this missing information was discussed with interviewees during the interviews (see Chapter 5 for more information on their roles and responsibilities).

Having identified potential interviewees, the data collection stage was initiated through direct contact with them. Interviews were secured in two stages. The first included sending connection requests to those who had LinkedIn accounts. Once they had accepted these invitations, formal interview invitation letters were sent. Meanwhile, interview invitation letters were also sent to those for whom valid email addresses had been found. These letters were personalised with the individuals' names and positions, and the reasons given for inviting them. This tailoring required personalisation of the first paragraph of each invitation letter, while the remaining paragraphs were identical because they discussed the nature of the research study, participants' rights, and their level of involvement if they agreed to participate. A month after the first attempt, another round of invitation letters was sent to those who had not provided either a positive or negative response.

However, with regard to potential UK interviewees, shortly after the data collection stage was initiated and a few invitation letters had been sent to current FRC board members, a favourable reply was received from the FRC, indicating that it accepted the invitation to participate in this study as an organisation, and nominating a member of its board with whom to speak. After discussion with the academic supervisors of this study, it was deemed necessary not to contact any current members until after the interview with the nominated board member, in order to ensure that this study did not disrupt the organisation. However, other FRC board member also agreed to participate, indicating that there would be two interviews with the FRC. Surprisingly, these were scheduled by the interviewees on the same day, in the same place and room and back-to-back, which seemed intentional, indicating that the FRC might encourage more board members to participate in future. However, after these interviews had been conducted, it turned out that the second interview had not been intended, and that the FRC would only allow one interview to be conducted with the person who had been nominated. After the recorder had been turned off, Interviewee 5 explicitly stated that the participation of one member was enough and that his/her views represented the process engaged in with regard to IFRS for SMEs, while Interviewee 4 further explained that few FRC members were aware of or understood the process followed with regard to the standard's adoption, so few would be able to take part in this study. According to Interview 4:

> *The problem is a lot of the people who you originally approached would not have the detailed knowledge really or the thoughts around this … I'm the director obviously in this area on a kind of day-to-day basis. I think that's probably… you're probably getting as high as you can get while the people still know what the process was.*

A similar phenomenon occurred with EFRAG, but this did not surface until an interview was conducted and it became clear that the interviewee was not participating as a member of EFRAG, but rather as a member of another NASB. According to the interviewee:

> *EFRAG has no mandate for the IFRS for SMEs, as the standard is not endorsed for use in Europe. Hence … no-one at EFRAG should respond to you in any formal capacity.*

Private correspondence with a member of EFRAG gave the following explanation for the lack of response from EFRAG's current members:

> *I'm afraid I don't think I can help with your study. This is because EFRAG is not involved in any work on the IFRS for SMEs and has not taken any decisions in relation to this Standard. I believe you have also contacted a number of my colleagues. EFRAG management has explained to all our staff that they should not respond in an EFRAG capacity for the reason noted.*

As a result, none of EFRAG's current members participated in this study, despite the fact that its current members included individuals who had been members of the technical and SMEs working groups, indicating their expertise with regard to IFRS for SMEs since they had been involved in the comparability study. However, invitation letters sent to former EFRAG and FRC members led many of them to participate in this study, as shown in Table 3.2. These issues cast significant doubt on whether this study could be conducted, because at that time only a handful of interviews had been conducted. Saturation had not been achieved since new information had been discovered during the last interview.

In order to facilitate more interviews, the snowballing method was used. Palinkas et al. (2015) and Mason (2018) define snowball sampling as a method to identify individuals by using current interviewees' social networks to encourage the participation of other members with generally similar characteristics. If the snowballing method is successful, a small number of participants will lead to the participation of more interviewees (Bryman and Bell 2015), which in turn will enable sufficient data to be gathered to explore and understand the phenomenon under investigation. Accordingly, interviewees were asked whether they could nominate others that might participate in this study, indicating that they should have prior knowledge and experience of NASBs' decision-making processes with regard to IFRS for SMEs. This method led one interviewee to identify EFRAG as a valuable source of information that might be used as a means to facilitate further interviews owing to its closeness with EU NASBs. The interviewee volunteered to discuss this issue with EFRAG, which led to its participation by circulating the interview invitation letter to all EU NASBs. However, prior to EFRAG's involvement, it requested a list of who had been contacted so that double invitations were not sent out. According to private correspondence with an EFRAG member:

> *We do of course have contacts with European National Standard Setters. If you could indicate which you have contacted already then we can forward your request to any others you have not contacted directly.*

The issue of double invitation was discussed with the interviewee, and he explained that:

> *If you did also contact other standard setters but have not received any answer by them, you should say so,* [name of EFRAG member who would circulate this study invitation letter] *otherwise will be put in a very bad position*

However, in order to protect interviewees' identities, and in line with the University of Bristol's research ethics, detailed information on participants was not provided, rather just the fact that FRC and EFRAG had been contacted. Although this response might exclude former FRC and EFRAG members for whom EFRAG might have contact details in its database, it was deemed necessary to do so in order to protect interviewees' identities. Once the EFRAG representative had been assured that correspondence had been engaged in only with EFRAG and FRC, the invitation letter was circulated to every NASB on EFRAG's system. According to private correspondence with the EFRAG member:

> *As requested, we have forwarded your request to all of the European National Standards Setters (NSS) on our database ... We have indicated that they should contact you directly if they are willing to participate.*

NASBs' lack of willingness to allow many current members from the same organisation to participate not only applied to FRC, but also to DASB, indicating that this issue might be applicable to other NASBs. When Interviewee 20 was asked whether it would be possible to nominate any other DASB members for this study, he asked, “yeah, but in what capacity should he speak at?” When it was clarified that s/he would follow the same interview protocol in order to gain a richer, deeper understanding of its decision and to reach saturation, he explained that this was insufficient and argued that this request was “difficult in the sense that I have to ask somebody then to invest another hour and that’s not really very efficient for us”.

This was not the only issue with regard to investigating IFRS for SMEs. Interviewees 5 and 7 suggested that lack of application of the standard in the EU and the EC’s rejection of it caused EU NASBs’ lack of interest of it, resulting in their limited participation in studies of that topic. According to Interviewee 7:

> *When you ask somebody in Europe about you want to investigate the IFRS for SMEs then usually the shutters go down because the general environment is not really IFRS for SME-friendly in Europe for legal reasons.*

Their suggestions explained why few NASBs participated in this study, as well as why many interviewees were reluctant to nominate other members to be interviewed.

The EC’s rejection of IFRS for SMEs, as well as NASBs’ limited time, their understanding of the standard, the processes that took place in their organisations relating to the standard and their belief that the participation of one member was sufficient, were the main obstacles to this study. However, the snowballing method and EFRAG’s circulation of the invitation letter helped facilitate more responses, which in turn led to the achievement of saturation. In total, 22 interviews were conducted, of which 20 were used, which resulted in saturation since later interviews provided no additional details. The data collection stage was then terminated.

Table 3.1 provides details of interviewees’ backgrounds and characteristics. However, this table excludes some of their characteristics, including their roles in other organisations, to avoid revealing their identity, because if these characteristics were taken together it would be easy to identify them. Additionally, since this study focused on NASBs’ decision-making processes, Interviewees 16 and 17 were excluded because they seldom discussed the process, rather, they focused on the advantages and disadvantages of IFRS for SMEs. The fact that Norway had been considering adoption of IFRS for SMEs for the past nine years (IFRS Foundation 2016e) may explain participants’ behaviour. Although Interviewees 18 and 19 were not members of an NASB, they were nominated by interviewees in this study because they worked closely with EU NASBs with regard to IFRS for SMEs, so their knowledge of EU NASBs' processes was relevant to this study.

Table 3.1: List of interviewees

Code	Back-ground	Gender	Date	Organisation	Role in the organisation	Member status	Interview duration	Type of Interview	Nationality
Interviewee 1	Practitioner	Female	01/07/2017	FRC	Board member	Former	85 minutes	Telephone call	UK
Interviewee 2	Academic	Female	26/10/2017	EFRAG	SMEs Working Group	Former	77 minutes	Telephone call	Spain
interviewee 3	Academic	Male	01/11/2017	EFRAG	SMEs Working Group	Former	54 minutes	Face-to-face	UK
Interviewee 4	Practitioner	Male	01/11/2017	FRC	Former technical and current board member	Current	32 minutes	Face-to-face	UK
Interviewee 5	Practitioner	Male	01/11/2017	FRC	Board member	Current	39 minutes	Face-to-face	UK
Interviewee 6	Practitioner	Male	03/11/2017	FRC	Board member	Former	40 minutes	Telephone call	UK
Interviewee 7	Academic	Male	15/11/2017	ASCG	Board member	Current	105 minutes	Face-to-face	Germany
Interviewee 8	Practitioner	Male	16/11/2017	EFRAG	Project manager and Communications Advisor	Former	35 minutes	Telephone call	Netherlands
Interviewee 9	Practitioner	Male	17/11/2017	EFRAG	Technical senior manager	Former	54 minutes	Skype	Italy
Interviewee 10	Academic	Male	20/11/2017	EFRAG	SMEs Working Group	Former	59 minutes	Skype	Poland
Interviewee 11	Practitioner	Male	28/11/2017	FRC	Board member	Former	68 minutes	Face-to-face	UK
Interviewee 12	Practitioner	Female	30/11/2017	ASCG	Board member	Former	92 minutes	Skype	Germany
Interviewee 13	Practitioner	Male	4/12/2017	EFRAG	SMEs Working Group	Former	53 minutes	Skype	Italy
Interviewee 14	Practitioner	Female	08/12/2017	ASCG	Project manager	Former	66 minutes	Skype	Germany
Interviewee 15	Academic	Male	19/12/2017	EFRAG	Research and Technical Director	Former	51 minutes	Skype	Italy
Interviewee 16	No data	Male	02/01/2018	Norway ASB	Secretary	Current	55 minutes	Skype	Norway
Interviewee 17	No data	Male	03/01/2018	Norway ASB	Secretary	Current	40 minutes	Skype	Norway

Interviewee 18	Academic	Male	04/01/2018	Other	Other	No data	76 minutes	Skype	Serbia
Interviewee 19	Practitioner	Male	09/01/2018	IFAC	Director SME and SMP	Current	105 minutes	Skype	UK
Interviewee 20	Academic	Male	11/01/2018	DASB	Board member	Current	57 minutes	Skype	Netherlands
Interviewee 21	Practitioner	Female	11/01/2018	EFRAG	SMEs Working Group	Former	32 minutes	Skype	Germany
Interviewee 22	Practitioner	Male	31/01/2018	OIC	Board member	Current	69 minutes	Skype	Italy

Source: Author’s own work

In addition to interviews, archival and secondary data were also used in this study. The next section discusses these sources of data in more detail.

3.4 Archival and secondary data

According to Richards (1996), although interviews may provide insightful information on a specific event that may otherwise be undocumented, this method has limitations. The interviewees may provide answers that put themselves in a positive light, bias their replies to a specific event, or disclose partial information and withhold controversial information, pointing to a need for data triangulation. Patton (1999) defines triangulation in qualitative studies as the use of multiple methods or types of data in order to gain a deeper understanding of the phenomenon under investigation. Thus, the interviews conducted in this study were complemented by archival and secondary data, allowing triangulation of the data (e.g. Denzin and Lincoln 2000; Flick 2004; Moisander and Valtonen 2006).

The archival data used in this study originated from various sources, including EC directives, reports and comment letters, the ASB's and FRC's EDs, minutes of meetings, basis for conclusions and final reports, the IASB's jurisdictional profiles, IFRS for SMEs EDs, comment letters and basis for conclusions, the ASCG's reports, minutes of meetings and commissioned studies, and the DASB's and OIC's letters and national governmental rules, regulations and reports, as well as those of the Department for Business, Innovation and Skills (BIS) and the Department for Trade and Industry (DTI). These entities' websites were searched manually using various phrases, including "small and medium", "SME", "SMEs", "IFRS for SMEs", "SME IFRS", "SMEs IFRS" and "IASB". The search results were manually checked and the "find" or "documents in search" function was utilised to identify relevant documents that discussed or mentioned the standard.

The secondary data utilised in this study included published articles, books and various websites, including those of Deloitte, AICPA and ICAEW. Archival and secondary data were used to gain a preliminary understanding of NASBs' decision-making processes. This was in accordance with the MRT approach, and considered interviewees' intentional and unintentional omissions of information to ensure data triangulation. Having gathered primary, archival and secondary data, the next stage of the research process was to analyse the information collected. The next section discusses the data analysis in more detail.

3.5 Analysis of data

The first step in analysing the interview data was to transcribe the recorded interviews. In order to ensure the accuracy of interview transcriptions, the same professional transcription company was used as is used by many qualitative academic researchers at the University of Bristol, owing to its confidentiality agreement with the University, and hence its alignment with and adherence to the University's strict research ethics. Prior to sending each recorded interview to the transcription company, it was played to ensure that no personal details were discussed. This was the case for all interviews because the interview protocol did not include any questions of that nature. Once the transcription was completed, each interview transcript was read while listening to the interview recording in order to ensure the accuracy of the transcription. The final draft was sent to interviewees to allow them to review, comment and ensure its accuracy.

The next step in the process was to analyse the interviews. Many methods are available to analyse qualitative data in the social sciences (Denzin and Lincoln 2000; Patton 2002a; Ahrens and Chapman 2006; Silverman 2006, 2015; Creswell 2013; Mason 2018). For insistence, Mason (2018) suggests three different approaches to qualitative data analysis: literal, interpretive and reflexive. The literal approach focuses on characteristics of the data, including form, style, structure and content. This approach may be used when researchers are interested in literal content, interaction sequences, or the structure of dialogue. Mason (2018) argues that scholars often do not stop at this stage, because the social universe has been previously interpreted, and such interpretations depend on the interpreter. This leads to the second approach. Mason (2018, p.191) defines the interpretive approach as researchers' perceptions of their data, in demonstrating meaning, signifying, representing or suggesting how the data might lead to explaining or discovering phenomena. In this method, scholars read "through or beyond the data". Lastly, the reflexive approach focuses on scholars' own interactions with their data, processes of generation and interpretations, as well as openness to critical feedback and changes, and the study's contribution to the field. Researchers are thus directly involved throughout the research process (Bloomberg and Volpe 2018; Mason 2018).

Although studies may use all three approaches, which this study does, choices must be made between analysing data manually and/or using qualitative analytical software (e.g. Welsh 2002; Mason 2018). This study utilised NVivo software as a tool for data analysis because the transcripts were lengthy and semi-structured. Semi-structured interviews are rarely identical because the flow of each interview differs between interviewees since they have different roles, perceptions and backgrounds. Bazeley and Jackson (2013) describe NVivo as a useful tool for sorting and managing data electronically, but it does not analyse, interpret or turn poor work into sound interpretation. In other words, NVivo is a set of electronic highlighters, scissors and paper used instead of physical ones, with the advantages of technology such as the ability to search for words or phrases in all sources at the click of a button, rather than manually reading all the data to find a specific phrase or sentence, as well as the ability to visualise data. According to Bazeley and Jackson (2013, p.2), NVivo helps researchers by opening up “new ways of seeing their data they missed when managing the information without software”.

Aided by NVivo software, a content analysis method was used, meaning that a code or label was attached to a word, sentence, paragraph (Coffey and Atkinson 1996; Graneheim and Lundman 2004; Myers 2013; Silverman 2014; Mason 2018). These codes or labels were based on the skeletal theoretical framework (see Chapter 4 for more detail), which was driven by previous literature. Thus, theoretical and empirical issues were considered with regard to NASBs’ decision-making processes. However, although predetermined issues guided the process, the empirical data led to the creation of issues or nodes that had not been considered previously. Each time a node was created, all the interviews were recoded in order to incorporate the new node. The process of coding required each interview transcript to be read at least 5 times, resulting in an in-depth understanding and closeness to the data. After coding each interview, interpretation of the research findings was based on the theoretical framework, which guided and was guided by the study’s findings throughout the process because this study embraced Laughlin’s (1995) MTR approach. Figure 3.3 illustrates the main research questions and general themes developed, which were driven by the theoretical skeletal framework and empirical data.

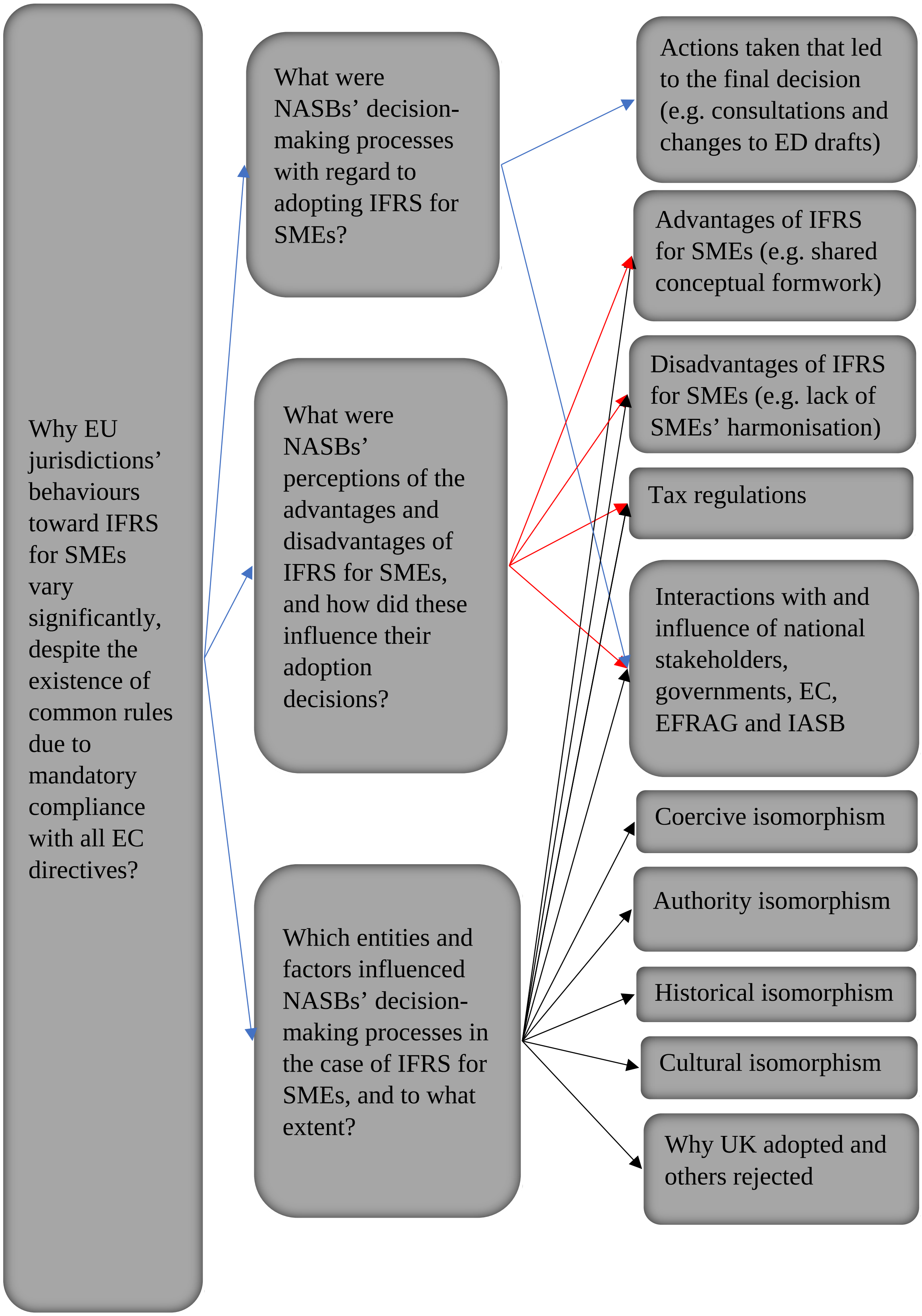

Figure 3.3: Research questions and general themes

Source: Author's own work

With regard to archival and secondary data, two methods of content analysis – manifest and latent – have been suggested (e.g. Ahuvia 2001; Kondracki et al. 2002; Guillemin and Gillam

2004). Manifest content analysis is defined as descriptions of visible, straightforward and obvious components of texts, and is often used in quantitative research studies. For instance, Ahuvia (2001, p.141) suggests that researchers interested in manifest content analysis will focus on whether an advertisement “explicitly claims that a car has more than 100 horsepower”. Latent content analysis is defined as the researcher’s consideration of what texts discuss, deal with or mean, and is often used by qualitative researchers, who must read and understand the texts in order to interpret them (e.g. Ahuvia 2001; Kondracki et al. 2002; Guillemin and Gillam 2004). For example, Ahuvia (2001, p.141) suggests that scholars interested in latent content analysis will focus on whether an advertisement “positions the car as powerful”.

The nature of latent content analysis and its use by many scholars in their investigations of social phenomena, and more specifically of accounting (Kondracki et al. 2002; Alon and Dwyer 2016; Wilkinson et al. 2003; Suddaby et al. 2007; Yilmaz 2013; Sudjali 2017; Brown et al. 2018), indicate its suitability and usefulness to this study. Thus, this study used latent content analysis to understand and incorporate archival and secondary data with interview data, hence achieving data triangulation.

The last step in the data analysis was reflexive critical thinking about the data gathered and their plausibility, explanation and contribution to the phenomena under investigation. The aim of this study was to deepen understanding of EU NASBs’ decision-making processes with regard to IFRS for SMEs. Cohesive understanding of interview, archival and secondary data provided explanations of why their behaviours differed even though all EU jurisdictions are required to comply with EC directives, and added needed meat on the bones of the skeletal theoretical framework, thus contributing to understanding their processes (see Chapter 7 for more detail). Figure 3.4 illustrates the data analysis process adopted in this study.

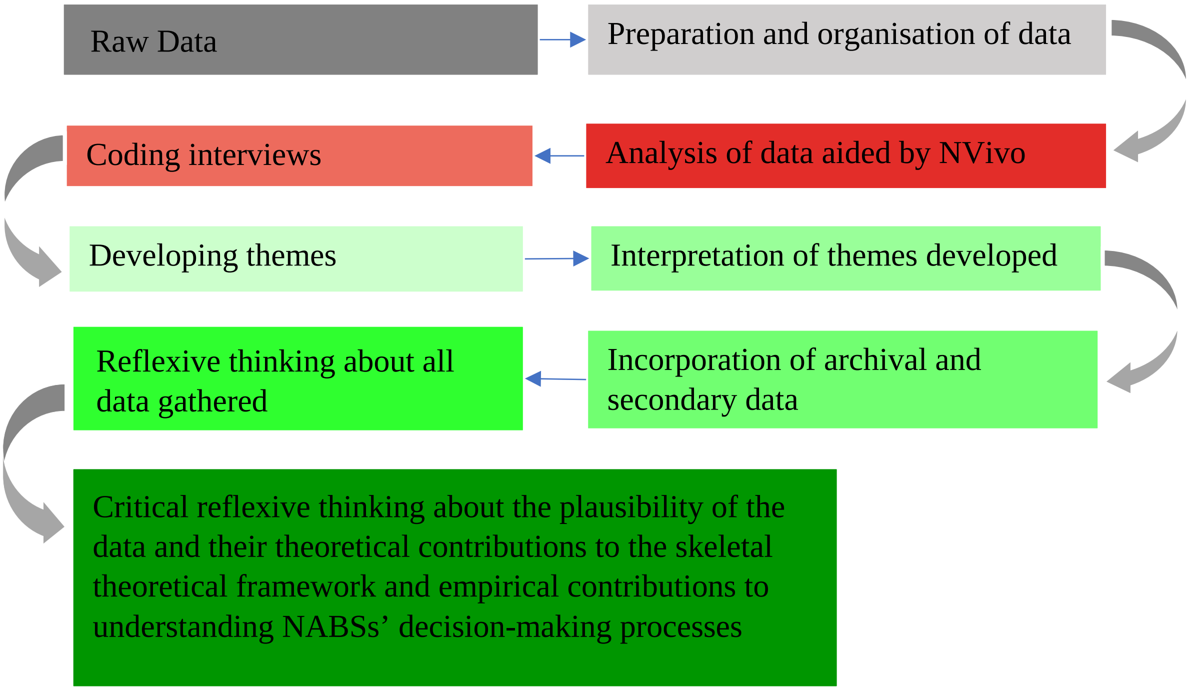

Figure 3.4: Data analysis process in this study

Source: Author's own work

3.6 Summary

This chapter has discussed possible methodologies and methods of research, and has provided detailed explanations of the approaches used in this study in light of the research questions. Also, it has provided detailed descriptions and explanations of each step taken to collect and analyse the data. The next chapter discusses the use of previous literature and institutional theory, and the incorporation of power and legitimacy theories to create the skeletal theoretical framework of this study.

Chapter 4: Theoretical Framework

4.1 Introduction

Through the lenses of institutional theory, power theory and legitimacy theory, this study uses “theoretical pluralism” in the context of IFRS for SMEs as a vehicle to gain a deeper understanding of NASBs’ decision-making processes. Hoque et al. (2013) explain that theoretical pluralism enables exploration of different, and even contradictory, information and processes in institutions and society. In a qualitative field study, theory combined with observation improves understanding of institutions and may consequently produce theoretically significant contributions (Ahrens and Chapman 2006).

According to Clegg (1981), the importance of institutional theory lies in its acceptance that organisations are influenced by their environment and that the latter is in part socially constructed. Institutional theory is a dominant perspective in organisational analysis (Lounsbury 2008). An institution is a social structure consisting of individuals or organisations operating within a constrained environment continually altered by the passage of time (Meyer and Rowan 1977; DiMaggio and Powell 1983). According to Davis and North (1970), the institutional environment is the set of social, political and legal contexts that regulate institutions’ production, exchange and distribution. Thus, in order to survive, an institution must comply with the norms and beliefs of its environment (Meyer and Rowan 1977; DiMaggio and Powell 1983). As a result of environmental pressures, organisations in different contexts react in various ways to similar external and internal factors (Weerakkody et al. 2009; Nobes and Parker 2012; Al-Htaybat 2018; Krishnan 2018).

Previous studies (e.g. Mir and Rahaman 2005; Albu et al. 2011; Al-Htaybat 2018; Krishnan 2018) have used DiMaggio and Powell’s (1983) theoretical framework of institutional isomorphism in their investigations of various phenomena relating to NASBs’ decision-making processes, indicating the framework’s relevance and importance to the current study. The next section discusses institutional isomorphism in more detail.

4.2 Institutional isomorphism

According to early studies of institutional theory, organisations experience many changes over time, which lead them to become similar (Meyer and Rowan 1977; DiMaggio and Powell 1983; Powell and DiMaggio 1991). Powell and DiMaggio (1991) suggest that organisations do not exist in a vacuum, but rather in an environment with various actors such as suppliers, competitors, customers, state organs and regulators. Organisations are influenced by their organisational field when they are conscious of different players. As a result, organisations may alter their practices and goals, and new organisations may enter the field (Powell and DiMaggio 1991). The process of isomorphism is propagated by organisations, through either encouragement or force, which leads to similarity in their actions.

Meyer and Rowan (1977) and DiMaggio and Powell (1983) suggest that there are two types of isomorphism: competitive and institutional. They define competitive isomorphism as the necessity for organisations to consider each other, since they compete not only for resources and customers, but also for power in social and economic fields. In the case of innovation, DiMaggio and Powell (1983) state that early adopters are commonly driven by a desire to improve their performance, which is considered to be rational. The authors regard such adoption as a form of competitive isomorphism.

Scholars (Meyer and Rowan 1977; DiMaggio and Powell 1983; Kondra and Hurst 2009) identify three types of mechanism through which institutional isomorphic change occurs: coercive, mimetic and normative. Although such mechanisms change organisational actions and structures, leading to increased homogeneity, they limit potentially useful change in order to maintain organisational similarity. These mechanisms are discussed further in the next sub-sections.

4.2.1 Coercive isomorphism

Coercive isomorphism has been described as formal and informal pressures exercised by one organisation over another, through "force, persuasion or invitations to join in collusion" (DiMaggio and Powell 1983, p.150). For example, parent corporations may require their subsidiaries to adopt their accounting practices, performance evaluation systems and budgetary planning procedures (DiMaggio and Powell 1983). Similarly, when a weak party lacks funds or alternative resources, a stronger party may force it to adopt its own practices and accommodate its needs (Meyer and Rowan 1977; DiMaggio and Powell 1983; Kondra and Hurst 2009).

Coercive isomorphism is frequently associated with governments, regulators and entities that have substantial authoritative powers, because they are able to establish sets of procedures to achieve certain goals and aims, and unification or harmonisation (Meyer and Rowan 1977; DiMaggio and Powell 1983; Scott 1987; Powell and DiMaggio 1991; Kondra and Hurst 2009). According to DiMaggio and Powell (1983, p.150), "other legal and technical requirements of the state – vicissitudes of the budget cycle, the ubiquity of certain fiscal years, annual reports, and financial reporting requirements that ensure eligibility for the receipt of federal contracts or funds – also shape organisations in a similar way". In the case of countries' adoption of the IASB's accounting standards, including IFRS, supranational entities such as the World Bank and the EC have exercised coercive pressure over national accounting regulations, providing an explanation for such moves (e.g. Ashraf and Ghani 2005; Mir and Rahaman 2005; Albu et al. 2011; Hassan et al. 2014; Sutheewasinnon et al. 2016). Thus, when a powerful entity dominates another, coercive isomorphism is present.

4.2.2 Mimetic isomorphism

Previous studies (Meyer and Rowan 1977; DiMaggio and Powell 1983; Kondra and Hurst 2009) define mimetic isomorphism as the adoption of the rules, practices, behaviour and processes of an established organisation by newcomers or others that lack well-defined systems. They argue that organisations without clear goals avoid trial-and-error acquisition of knowledge and seek survival by obtaining legitimacy through mimicking the behaviours of well-established organisations. For instance, a new employee may mimic the behaviour of another who has received a reward, without a clear understanding of the link between behaviour and rewards (Kondra and Hurst 2009). Furthermore, organisations may seek compliance with an external group's socially imposed norms and beliefs because they seek stability and approval by that group (Kondra and Hurst 2009).

NASBs' behaviours with regard to IASs/IFRS are diverse (Nobes 1998, 2006, 2013, 2018; Zeff and Nobes 2010; Nobes and Parker 2012). Jurisdictions either adopt, converge with or reject the international standards (IASB 2018b, 2018c). Even those that adopt differ, because some adopt the standards as issued by the IASB, while others modify them. (Nobes 1998, 2006, 2013, 2018; Zeff and Nobes 2010; Nobes and Parker 2012). Countries that adopt or converge with these standards demonstrate mimetic behaviour toward other jurisdictions, since they seek to enhance similarities, gain legitimacy and become part of a larger group (Al-Htaybat 2018; Krishnan 2018). Accordingly, mimetic isomorphism exists when an organisation accepts the norms and beliefs of a wider group in order to be part of it, or copies the behaviours of established organisations in return of rewards, recognition or survival.

4.2.3 Normative isomorphism

This type of isomorphism occurs when organisations become more similar, mainly due to professionalisation (DiMaggio and Powell 1983). DiMaggio and Powell (1983) identify two features of professionalisation that promote isomorphism. The first feature relating to isomorphism is professions, as actions and behaviours develop and spread through professional systems that allow their quick diffusion. The second is legitimacy and education, through reasoning founded and shaped by educational experts.

Previous studies suggest that normative pressure exerted by the accounting profession, including Big Four audit firms and educational institutions, cause the adoption of accounting standards such as US GAAP and IASs (e.g. Touron 2005; Hassan 2008; Judge et al. 2010; Oulasvirta 2014; Carneiro et al. 2017). In Iraq, normative pressure by the accounting profession was an influential factor in the application of IFRS beyond listed companies, whereas in Finland, normative pressure was relatively weak, which prevented the initiation of a notion to adopt International Public Sector Accounting Standards (Oulasvirta 2014). Thus, normative isomorphism occurs either through diffusion of education and research, or through normative pressure by the professions.

However, scholars have criticised institutional theory owing to its limitations (e.g. Scott 2008; Phillips and Malhotra 2008; Weerakkody et al. 2009).

4.3 Criticisms of the institutional theory framework

For decades, scholars in various fields have used institutional theory to study the impact of the environment on organisations (Weerakkody et al. 2009; Vogel 2012; Greenwood et al. 2017). Meyer and Rowan (1977) accepted the influence of social factors on organisations' structure and behaviour, but focused on how "myths" become formal rules that are imposed and then spread into society by powerful and influential organisations. Although Meyer and Rowan's (1977) framework was revolutionary in its recognition of institutions, it was oversimplified and lacked appropriate recognition of institutions' social essence because it ignored actors' rationality and reflexivity (Phillips and Malhotra 2008).

Early work on institutional theory has been criticised for its limited acknowledgement of significant institutional players. For instance, DiMaggio and Powell (1983) show that procedures, rules and laws are the main components of institutionalisation, enforced mainly by professions and regulatory institutions. They assume that when these components are imposed on institutions, adoption decisions are conscious because the rules and plans must be implemented. However, early institutional work lacks appropriate consideration of the influence of taken-for-granted behaviours, habits and prior assumptions, as well as unconscious cultural aspects, because it fails to consider agency issues and the fact that practices vary and change over time (Scott 2001; Vogel 2012; Ferry et al. 2019).

Zucker (1987) highlights that it is difficult to detect some indicators of institutionalisation, such as resource dependency, authority and power. For instance, if an organisation does not obey national or international laws, fines may be imposed, which in turn may affect the external norms adopted according to institutional theory. This makes it difficult to distinguish whether coercive, normative or mimetic mechanisms influence organisations' behaviours because the mechanisms lack clarity and are interrelated. Mizruchi and Fein (1999) suggest that previous studies' interpretation of organisations' behaviour as a form of mimetic isomorphism can also frequently be explained as coercive or normative pressure, since mimetic behaviours may be a result of fear of sanctions, suggesting the existence of coercive pressure rather than a desire to acquire legitimacy or reduce trial-and-error acquisitions of knowledge. Also, organisations' continued mimicking of specific behaviour may lead it to evolve into taken-for-granted and normative rather than mimetic behaviour (Kondra and Hurst 2009).

According to Sahlin and Wedlin (2008), since practices, ideas, and beliefs are not set in stone but rather evolve over time, this may result either in isomorphism, as suggested by institutional theory, or in divergence. This means that, over time, a study's findings may become obsolete and require updating in order to understand how an organisation has evolved. Suddaby (2010) suggests that, in order to distinguish between technical and institutional processes, researchers should focus on organisational motivations rather than on the results of the process, because the latter offer little explanation of what caused such behaviour.

Many studies (e.g. Zuckerman 1999; Sutheewasinnon et al. 2016) recognise that early institutional theory neglects organisations' and individuals' roles as change agents because the framework focuses mainly on sources of acceptance, including change in return for legitimacy. Zuckerman (1999) suggests that actors may be neglected because they lack influence over institutions, and because actions are always directed by the latter which limits individuals' behaviour. Scholars (Lawrence et al. 2009; Suddaby 2010) challenge institutional theory's notion of isomorphism, which views organisations as prisoners of their institutional environment, and suggest the introduction of an agency perspective. DiMaggio (1988) revisits the "iron cage" (DiMaggio and Powell 1983) and introduces the concept of actors and agency by incorporating "institutional entrepreneurship" into institutional theory. According to Lawrence (1999), studies of agents' roles concentrate mainly on the capacities and methods they use to create, alter or ensure that practices are institutionalised.

Zucker (1991) investigates the behaviour of individual actors in various institutional contexts. His study highlights that if an action is taken by an individual in a personal capacity, its effect on institutions will be weak, whereas an action taken by an individual or position holder within the organisation's hierarchy will have greater institutional effect. More recent studies that have investigated actors' capacity to form, structure or restructure institutions suggest that their effects depend on their resources (e.g. Lawrence 1999; Greenwood and Suddaby 2006), communication methods (e.g. Hardy and Maguire 2008), processes and collaboration (e.g. Hardy and Maguire 2008; Pacheco et al. 2010). According to Pache and Santos (2010), since organisations may face contradictory institutional demands, their responses may vary depending on organisational actors' compliance with and support for a specific demand due to its nature or closeness.

However, although Meyer and Rowan (1977) define "powerful myths" and control and power are tacit in DiMaggio and Powell's (1983) definition of coercive isomorphism, institutional theory has been criticised for its limited consideration of power (Cloutier and Langley 2013), since it concentrates on institutionalisation as a result rather than as a process (e.g. Zucker 1987; Dillard et al. 2004; Lawrence 2008). Power is particularly significant in this context because, in order to achieve coercive isomorphism, punishments, controls and rules must be applied to limit organisations' deviation from approved norms (Greenwood et al. 2008). Although power is important, Greenwood et al. (2008, p.25) highlight that our understanding is limited to "how power, conflict and fundamental social interests affect and are affected by institutional processes", while Lawrence (2008) suggests that future studies should deal explicitly with power in order to help develop a more generalisable framework for institutional theory.

Another limitation of institutional theory is that, although it overlaps with legitimacy theory, its recognition of legitimacy is oversimplified (e.g. Dart 2004; Phillips and Malhotra 2008; Scott 2008). According to Scott (2008), institutional theory often associates legitimacy with organisations' compliance with and adherence to environmental norms and beliefs, rather than whether an action is morally right or wrong, thus disregarding different types of legitimacy. These criticisms of institutional theory have led to calls to incorporate other perspectives in order to minimise its limitations and to better understand institutions in a state of rapid development (Cloutier and Langley 2013; Rosa 2013; Bouilloud et al. 2019).

Despite the limitations of institutional theory, it provides a useful theoretical lens through which to explore accounting phenomena, owing to its recognition of the influence of social structures on human behaviour and its broad sociological framework (Khadaroo 2005b; Mir and Rahaman 2005; Al-Htaybat 2018; Krishnan 2018). In order to understand governments' and NASBs' motivations and behaviour toward IFRS for SMEs, it is essential to understand their context. Scholars' utilisation of institutional theory to explore and explain various accounting phenomena, including jurisdictions' behaviour toward the IASB's accounting standards, suggest its usefulness for this study. Thus, the next section discusses previous accounting studies' use of institutional theory.

4.4 Use of institutional theory in the accounting field

Scholars (e.g. Covaleski and Dirsmith 1988; Carpenter and Feroz 2001; Hussain and Gunasekaran 2002; Dillard et al. 2004; Mir and Rahaman 2005; Albu et al. 2011; Al-Htaybat 2018; Krishnan 2018; Nisansala 2018) have utilised institutional theory as a theoretical lens to explore and investigate organisational phenomena on the accounting spectrum. Burns (2000) observes that, in the accounting field, emerging routines can be assumed to be institutionalised if they are widely used and undisputed by organisations. Thus, accounting practices may no longer actually be technical and administrative processes, but rather rationalised in order to enhance legitimacy (Dillard et al. 2004). For example, Hussain and Gunasekaran's (2002) examination of the relationship between external institutional influences and the performance of both financial and non-financial institutions reveals that coercive, normative and mimetic factors influence both types of organisation.

Hussain and Gunasekaran (2002) define coercive pressures as "the enforcing and regulative aspects of certain institutions" over others. In this context, the central bank, socioeconomic and political institutions and other associations are coercive factors. The authors define normative pressures as guidelines and responsibilities deemed appropriate for social conduct, as well as managers' experience, training and education. These include managers' competence and strategic orientation, and top-management and corporate culture. They define mimetic pressure as copying of the best practices of well-known organisations, such as integration of other organisations' costing practices.

In a case study of Fiji Posts and Telecommunications Limited (FPTL), Sharma and Lawrence (2008) observe how institutional theory helps reveal incorporated processual changes. They use institutional theory to investigate micro-processes, revealing that institutional inconsistencies motivate organisational change, and that resistance to change is attributable to the cultural and political context. In order to achieve their objectives, the authors adopted a longitudinal method to understand the essence of institutions and how the framework of institutional theory enables understanding of institutional change. They suggest that, in their case study, there was a need for radical change as a result of external pressure from the Asian Development Bank and the World Bank. Thus, the Fijian government had to reconstruct its public sector. The involvement of external organisations caused an institutional crisis, which sparked a cultural change. The crisis caused conflict and tensions which were only resolved by the passage of time.

Carpenter and Feroz (2001) used institutional theory to investigate the US government's shift from cash-based accounting to the adoption of US GAAP. They highlight the importance of resource dependence on the decision to adopt US GAAP, and classify this as a coercive type of institutional pressure, while resistance to change was associated with a soft professional association. The results of their study show that, owing to strong institutional pressure from governmental and well-organised accounting institutions, resistance to changing from cash-based accounting to US GAAP was likely to fail.

Previous studies, such as those by Mir and Rahaman (2005), Albu et al. (2011) and Krishnan (2018), use institutional theory primarily as a theoretical lens to explore and explain jurisdictions' convergence with or adoption of IFRS. Specifically, they use DiMaggio and Powell's (1983) notions of competitive and institutional isomorphism to explain why countries behaved as they did toward these standards. NASBs do not adopt or issue accounting standards in a vacuum but are similar in nature to other organisations, and particularly to local authorities, in that they are not isolated from their external environment (e.g. Fogarty et al. 1994; Young 1995; Pfeffer and Salancik 2003; Gomes 2004; Mir and Rahaman 2005; Hail et al. 2010). Therefore, they compete like any other organisation, not only for resources but also for power. In the case of innovation, DiMaggio and Powell (1983) state that early adopters are commonly driven by a desire to improve their performance, which is considered to be rational. They frame such adoption as competitive isomorphism.

Mir and Rahaman (2005) and Albu et al. (2011) use the term coercive pressure to describe how the World Bank and the EC influence NASBs' decision-making processes in developing countries (e.g. Bangladesh and Romania) as a result of control over economic capital. The wholesale adoption of IFRS in Bangladesh following the World Bank's grant of US$200,000 to ICAB (Mir and Rahaman 2005) clearly demonstrates the Bank's influence. In the case of Romania, the World Bank and the EC influenced the adoption of IFRS. During the second phase of Romania's development of accounting standards, in order for it to secure a World Bank loan, certain conditions were imposed relating to the adoption of IFRS. However, at that time Romania was planning to join the EU, so only IFRS standards that complied with the Fourth and Seventh European Directives were adopted.

Mir and Rahaman (2005) also show that DiMaggio and Powell's (1983) mimetic pressure is applicable to the diffusion of IASB accounting standards in developing countries, which they suggest is due not only to the IASB's origins in developed countries, but also to a perception that the IASB is superior, causing many jurisdictions to adopt its standards without careful consideration of their own accounting needs. In later studies, Al-Htaybat (2018) and Krishnan (2018) suggest that the notion of mimetic pressure helps identify other phenomena relating to Jordan's and India's behaviour toward IFRS. According to Al-Htaybat (2018), Jordan's desire to attract foreign investors caused it to mimic other jurisdictions that had adopted IFRS so that it would not be left out of the international market, whereas India's mimicking of its trading partners, the US and Japan, led to gradual convergence with IFRS (Krishnan 2018). Krishnan (2018) suggests that the US's rejection of IFRS and Japan's cautious attitude toward the standards were the main reasons for India's slow and careful move toward converging its national accounting standards with IFRS, which led it to miss its announced convergence deadlines several times.

Previous studies that have employed institutional theory highlight its relevance and usefulness for explaining various accounting phenomena, including interactions among stakeholders, governments and NASBs, which provide explanations of what aspects drive jurisdictions' behaviour toward IFRS (e.g. Mir and Rahaman 2005; Albu et al. 2011; Al-Htaybat 2018; Krishnan 2018). In this study, previous literature on institutional theory was used in three ways. First, evaluation of previous studies that used institutional theory, and more specifically DiMaggio and Powell's (1983) institutional isomorphism, facilitated the interview protocol. Second, analysis of previous studies highlighted the importance and suitability of institutional theory to this study. Third, previous studies helped to locate a gap in the theoretical framework of institutional theory.

Although institutional theory considers power and legitimacy as relevant factors to explain organisations' behaviour, its recognition of them is indirect or oversimplified (e.g. Zucker

1987; Dart 2004; Dillard et al. 2004; Lawrence 2008; Phillips and Malhotra 2008; Scott 2008). Scholars have called for other perspectives to be incorporated in order to minimise the limitations of institutional theory and address institutions' rapid evolution and development (Cloutier and Langley 2013; Rosa 2013; Bouilloud et al. 2019). Therefore, in this study, institutional theory is supplemented by power and legitimacy theories to gain a deeper understanding of what factors influenced NASBs' decisions on adopting IFRS for SMEs. Furthermore, since this study employs the MRT approach, its skeletal theoretical framework incorporates relevant issues and entities identified by previous studies, as discussed in Chapter 2, including authority and historical and cultural accounting traditions, in order to further understand NASBs' decision-making processes. The next section discusses power theory.

4.5 Power theory: The issue of definitions of power

Since governments and NASBs are similar in nature to other organisations, in that they are not isolated from their external environment (e.g. Fogarty et al. 1994; Young 1995; Pfeffer and Salancik 2003; Gomes 2004; Mir and Rahaman 2005; Hail et al. 2010), various entities with different perceptions and authoritative power may participate and modify their final outcomes (Hope and Gray 1982; Kwok and Sharp 2005; Albu et al. 2011; Hoffmann and Detzen 2013; Fülbier et al. 2017). Scholars criticise institutional theory for its weak consideration of power (e.g. Cloutier and Langley 2013) owing to its concentration on institutionalisation as a result rather than as a process (e.g. Zucker 1987; Dillard et al. 2004; Lawrence 2008). This is important for this study because Miller (1994) suggests that accounting practices and standard setting are explicitly affected by powerful institutions, which relates closely to and may offer possible explanations for the phenomenon under investigation. In order to minimise this limitation, Lukes's (1974, 1977; 2005) work on power, including his three dimensions of power, is used to supplement institutional theory because previous studies have deemed his work useful for exploring and explaining NASBs' decision-making processes (e.g. Hope and Gray 1982; Hussein and Ketz 1991; Sikka 1992; Kwok and Sharp 2005).

According to Allison (2018), power takes various forms, including "force, persuasion, authority, coercion, and manipulation". Dahl (1976) defines power as the possibility for an individual, entity or group of entities to achieve a desired behavioural change in another individual, entity or group of entities, whether by coercion, persuasion or inducement. A key issue in defining power is whether it relates to the possession or exercise of power (White 1972). In other words, power may be considered as the ability or capacity to do something, as well as in terms of what can be done with it, such as influencing the behaviour of others through various types of pressure (Clegg 1975, 2013; Allison 2018). White (1972, p.480) argues that power is difficult to define because of its divergent and sometimes contradictory definitions and because it often has multiple aspects, and that "there are important situations in which one cannot, even when in possession of all the pertinent facts, decide intuitively whether power is involved".

Lukes (1974, 1977; 2005) argues that power has multiple dimensions, allowing explorations and providing deeper understandings of how individuals, entities and groups of entities may force, influence, change, pressurise or reshape others' preferences, beliefs and behaviours to reach desired outcomes. Hope and Gray (1982) use Lukes's framework in investigating the creation of a research and development standard by the former UK standard setter, the Accounting Standards Committee (ASC). They highlight the importance and usefulness of Lukes's framework for gaining a deeper understanding of NASBs' decision-making processes (Hope and Gray 1982). They closely followed Lukes's dimensions of power "because it provides the most thorough of the known and available political frameworks for exploratory research into accounting policy making" (Hope and Gray 1982, p.535). Kwok and Sharp (2005) also employed Lukes's (1974, 1977) work on power because "all works of power acknowledge the need for influence in order for power to exist". This was necessary for their exploration and investigation of the IASC's decision-making process in issuing and developing its IASs, because many entities sought to lobby the IASC's standard-setting process.

These studies suggest that Lukes's work on power provides a useful theoretical language for exploration of NASBs' decision-making processes, which is the aim of this study. Accordingly, this study uses Lukes's (1974, 1977; 2005) work on power, and particularly his three dimensions of power, to supplement the institutional theory framework and minimise the limitations discussed in Section 4.3 by focusing on institutions' processes rather than outcomes. The next sub-sections discuss Lukes's (1974) dimensions of power.

4.5.1 First dimension of power

A fundamental assumption of Lukes's first dimension of power is that power is pluralistically centralised and distributed (Lukes 1974). Dahl (1957, pp.202-204) defines power in terms of "A has power over B to the extent that he can get B to do something that B would not otherwise do", but later clarifies that it involves "a successful attempt by A to get *a* to do something he would not otherwise do". Lukes (1974) identifies a substantial difference between the two descriptions: the first clarifies A's capacity and capability to exert power, while the second shows the successful exercise of A’s power. The latter encapsulates the pluralist notion of power. Lukes (1974) suggests that the pluralist framework of power may be comprehended in terms of diverse interested organisations in society competing to control public policy outcomes. In other words, the framework does not define a single powerful elite entity, but rather a group of diverse actors.

In an earlier work, Polsby (1963) supports the use of a pluralist framework which concentrates on the actual practice of power. He calls for further investigation of specific public policy outcomes to further understand who actually dominates the decision-making process. Lukes (1974) stresses that pluralist studies focus on investigating actual observable behaviour. This can be done either by direct investigation, or by reconstructing behaviour through documentary analysis of supplementary sources, such as newspapers and other relevant documents (Polsby 1963).

Lukes’s (1974) first dimension of power, which includes capability and capacity and the successful exercise of power, is applicable to this study because in the EU, all legislation must comply with EC directives, demonstrating the possession of power by a supranational organisation and how this may influence NASBs’ decision-making process. However, NASBs not only interact with the EC, but also with national governments, stakeholders and other NASBs. Thus, many actors seek to influence the decision-making process. Therefore, the first dimension of power provides a deeper understanding of which actors’ capacity or exercise of power influences NASBs’ outcomes.

4.5.2 Second dimension of power

Bachrach and Baratz (1962) extended earlier literature by proposing that power has two dimensions, rather than the single dimension of the pluralist view. They define the second dimension of power as A’s allocation of energies to form or support institutional behaviours and political and social values, thereby limiting the public political process to considering issues that support A’s preferences. When A influences B, this restrains the latter from any practical behaviour, such as discussion of any issues which, if resolved, would seriously damage A’s preferred choices. In other words, an individual or group possesses power that unconsciously or consciously builds or supports barriers to public discussion of political conflicts (Bachrach and Baratz 1970).

Bachrach and Baratz (1970) further develop the second dimension of power by presenting the concept of “mobilisation of bias”. This notion was first introduced by Schattschneider (1960), who defined it as any political organisation having a bias for using particular types of conflict with and restrictions over others (Bachrach and Baratz 1970). Bachrach and Baratz (1970) define the mobilisation of bias as a set of dominant values, ceremonial beliefs and institutional behaviours – the "rules of the game" – which continually and systematically operate to serve the needs of certain groups or individuals at the expense of others. Those who benefit have a distinguished status enabling them to enhance and defend their vested interests.

Bachrach and Baratz's (1970) main criticism of the pluralist definition of power is that it focuses mainly on the exercise of power, and gives insufficient consideration to limiting or restricting the scope of decision making. Lukes (1974) criticises their two dimensions of power, arguing that if B anticipates A's reactions but fails to act, the result is a non-event, and if nothing happens, it cannot be empirically verified. However, Bachrach and Baratz (1970) argue that non-decisions that limit the scope of decision-making are observable. Such non-decisions need not necessarily be conscious, explicit or specific to a certain issue. Also, unawareness "does not mean, however, that the dominant group will refrain from making non-decisions that protect or promote their dominance. Simply supporting the established political process tends to have this effect" (Bachrach and Baratz 1970, p.50). Thus, investigation of the two dimensions of power includes both decisions and non-decisions. The authors explain that non-decisions result in disappointment, restriction or challenges to decision makers' benefits or values, whereas other approaches consider decisions as deliberately chosen behaviours (Bachrach and Baratz 1970). In the case of NASBs, for instance, not all board members have equivalent power and influence over the board's agenda, decision-making or final outcomes. This is because the chair may have certain authority not possessed by any other member, enabling the former to alter the board's final outcomes, and limit or permit accounting issues or changes to current accounting standards by controlling the agenda or discussion. In other words, an NASB chair may have substantial power over the board in the case of both decisions and non-decisions.

Bachrach and Baratz (1970) propose that in order to recognise non-decisions, scholars must first identify every individual or group engaged, directly or indirectly, in the decision-making process. Detailed investigation must then be undertaken to identify which actors are preferred by decision makers. The authors' two dimensions of power reclassify what might be considered to be political issues. On the one hand, pluralists argue that a political issue does not materialise until a significant political entity recognises it (Dahl 1961). On the other hand, the two dimensions of power highlight the significance of unmaterialised political conflict, barred or prohibited from materialising by powerful political actors (Lukes 1974).

The two dimensions of power expand the single dimension by including social practices in the context of public behaviour and decision-making processes, as well as the “rules of the game” (Bachrach and Baratz 1970) and how they may influence the community. However, Lukes criticises Bachrach and Baratz’s (1970) two dimensions of power for focusing only on observable power, whether hidden or obvious, making them subject to the same limitation as the pluralist view. The next sub-section discusses Lukes’s third dimension of power.

4.5.3 Third dimension of power

Lukes’s criticism of the second dimension of power forms the basis for his third dimension. As previously discussed, Lukes’s first criticism is that the two dimensions of power focus only on actual conflicting behaviour, whether hidden or obvious. Lukes contends that, although individuals make choices from alternatives, bias toward a specific system or the “rules of the game” may cause specific decisions. Thus, the outcome is neither rational nor chosen by a particular individual (Lukes 1974).

Lukes’s third dimension of power has three key concepts. The first is that power holders may be persuasive and protected so that dominated individuals lack knowledge of alternative systems or options. The rules of the game are not only sustained by individuals’ choices or behaviour, but are also shaped by the cultural and social behaviour of institutions, practices and groups. Lukes argues that power is exercised in conflicting circumstances and may take the form of either authority or manipulation. These types of power can be exercised without conflict. Thus, Lukes defines power as A exercising power not only to make B do something that B would not otherwise do, but also to influence, change and shape what B wants. In doing so, A guarantees B’s compliance by dominating the latter’s desires and ideas. Thus, unlike the first and second dimensions of power, Lukes’s argument does not require actual conflict, as the exercise of power effectively prevents the creation of such conflict (Lukes 1974).

Lukes’s (1974) third dimension of power overcomes criticism of the second dimension in the case of non-decisions by suggesting that lack of conflict may be caused by how individuals’ assumptions, perceptions and preferences are shaped or created, such that they accept their position in the current system because they see no alternative, or because they evaluate it as somehow divinely ordained. It also investigates the potential for “latent conflict”, which refers to a conflict of interest between power holders and the “real interests” of those excluded by them. Lukes (1974) highlights that the real interests of excluded groups may not be visible or recognisable because there may be latent conflict between the perceptions and preferences of those exercising power and those influenced by it. Therefore, Lukes's third dimension of power avoids the limitations of the first and second dimensions by taking into account that issues may be omitted from decision-making processes through institutional practices, social forces or individual decisions (Lukes 1974).

In summary, Lukes's (1974) three dimensions of power have three key aspects: latent conflict, control over the political agenda, and a distinction between subjective and real interests. Since Luke's work, including his three dimensions of power, is relevant to the phenomenon under investigation, the next section discusses its use in accounting studies that have investigated NASBs' decision-making processes.

4.6 Use of Lukes's three dimensions of power in the accounting field

In setting accounting standards, the first step is to recognise an accounting issue or problem as appropriate or worthy of NASBs' action (Walker and Robinson 1994; Howieson 2009; Ram 2012; Klein and Fülbier 2018; Schührer 2018). NASBs' decision-making processes then include formal and informal procedures that allow various parties to exercise power, influencing the process to differing degrees (e.g. Hope and Gray 1982; Hussein and Ketz 1991; Sikka 1992; Kwok and Sharp 2005). Scholars have used Lukes's work on power, including his three dimensions of power, to explore NASBs' decision-making processes (e.g. Hope and Gray 1982; Hussein and Ketz 1991; Sikka 1992; Kwok and Sharp 2005) because NASBs must interact with various entities throughout their development and issuance of accounting regulations (e.g. Cobb et al. 1976; Lowe et al. 1983; Wallace 1990; Fogarty 1992; Klumpes 1994; Rahman et al. 1994; Howieson 2009; Stevenson 2010; Hoffmann and Zülch 2014; Krishnan 2018). Thus, one entity may dominate the process, as in the case of EU countries' adoption of IFRS due to the EC's endorsement of the standards (EC 2000, 2002; Chiapello and Medjad 2009), preventing or minimising other parties' involvement.

Kwok and Sharp (2005) use the first dimension of power to investigate the standard-setting process employed by the IASC to issue two accounting standards: segment reporting and intangible assets. Their data analysis uses three categories to distinguish how different entities influence standard setting: "sanctions", "persuasion (ex ante)" and "persuasion (ex post)". They define sanctions as beneficiaries boycotting standards issued by the IASC owing to lack of enforcement. Persuasion is defined as the operation of power over the basis of an argument, and argue that differentiating between "ex ante, decision-relevant information" and "ex post information, evaluated against some objective notion of a benchmark" may provide helpful insights into the standard-setting process (Kwok and Sharp 2005). They suggest that four entities influenced the IASC: preparers, users, auditors and regulators. However, none of these entities dominated the standard-setting process, which can therefore be classified as a "mixed power system".

Sikka (1992) uses Lukes's (1974) argument that conflict is unnecessary for the existence of power, which is Lukes's main criticism of the first and second dimensions of power. In doing so, he investigates audit policy making in the UK by examining the issuance of a 1985 guideline, "The auditor's considerations in respect of going concern", by the Auditing Practices Committee (APC). He investigates various aspects of the APC, including the social and political environment within which the guideline was issued, and comments received following the committee's issuance of the ED and the agenda underlying it. Sikka (1992) concludes that the guideline was issued not as a regulatory restriction, but rather as a legal protection for audit firms, resulting from a lack of trust in auditors due to the severe economic crisis and the collapse of many companies that had received unqualified audit reports. He also highlights that the pluralist assumption of power is inadequate, and that decisions or views may be taken for granted or institutionalised. In this case, audit firms indirectly funded the APC, which allowed them to dominate the issuance of the guideline. Although standard setters argue that they issue standards in the general interest, what determines the general interest is "inevitably coloured by their business and professional interests" (Sikka 1992, pp.384-385).

Hope and Gray (1982) embrace Lukes' three dimensions of power in their investigation of the decision-making process of the UK's former standard setter, the ASC. According to Hope and Gray (1982, p.532), "In common with much of the literature" and based on Lukes' (1974, p.26) notion that "the absolutely basic common core to, or primitive notion lying behind, all talk of power is the notion that A in some way affects B", the terms "influence" and "power" were used interchangeably. They propose that the ASC changed the accounting treatment and disclosure requirements of the R&D standard based on recommendations and suggestions made by the aerospace industry. However, the authors could not determine what caused the ASC to accept the aerospace industry's recommendations, owing to a lack of evidence on whether other organisations were also able to influence its decision-making but were not documented. Power in this context may have taken various forms and shapes, including the accounting profession's perception of the R&D standard.

These previous studies illustrate that different entities may shape or influence NASBs' decision-making processes, but it is unclear why they are able to do so. This suggests that investigating NASBs based solely on power theory may exclude other relevant explanations that might provide more detail on how these entities are able to influence final outcomes, including institutions' self-image and legitimacy. Thus, it is necessary to investigate NASBs' legitimacy because this is granted by aspects of their environment, including various stakeholders, as discussed in the next section.

4.7 Legitimacy theory: Types of legitimacy

Scholars have criticised the institutional theory framework for being too simple and, despite its overlap with legitimacy theory, for lacking recognition of different types of legitimacy (e.g. Dart 2004; Phillips and Malhotra 2008; Scott 2008). This study also incorporates Suchman's (1995) framework as a supplement to minimise the limitations of institutional theory by recognising different types of legitimacy, which may provide a deeper understanding of NASBs' decision-making processes.

Suchman (1995) defines legitimacy as an assumption or perception of the actions of an entity as appropriate, desirable and adequate according to its socially-constructed system of definitions, beliefs, principles, values, rules and norms. Organisations desire legitimacy from wider social groups rather than a few individuals, as such acceptance will grant social legitimacy (Suchman 1995; Deephouse and Suchman 2008; Deephouse et al. 2017). Thus, organisations share similar ideas, values, beliefs and preferences with their cultural environment (Meyer and Scott 1992).

Early studies of legitimacy took two approaches: strategic and institutional (Suchman 1995; Deephouse et al. 2017). Strategic studies highlight how managers or individuals use evocative symbols to acquire social support, whereas institutional studies highlight the influence of cultural pressures on organisations' behaviour. Although strategic and institutional studies provide extensive explanations of legitimacy, they overlap (Suchman 1995). Suchman (1995) further contributes to the legitimacy literature by synthesising these strands to create three types of legitimacy: pragmatic, moral and cognitive.

Pragmatic legitimacy is based on an organisation's self-interested behaviour toward its most immediate audiences, involving direct reciprocation between these audiences and the organisation. It is also evident where an organisation has a noticeable influence on the audience's wellbeing, as well as in changes to economic, political and social interdependencies

(Suchman 1995). Organisations pursuing their own self-interests may use advertisements to gain legitimacy, as well as to disseminate attributes of good practice (Aldrich and Fiol 1994). Whether such behaviour is driven by strategic or institutional factors, the motivation is organisations' desire to build and maintain characteristics of reliability and competence. Thus, "at the simplest level, pragmatic legitimacy boils down to a sort of exchange legitimacy – support for an organisational policy based on that policy's expected value to a particular set of constituents" (Suchman 1995, p.578). In other words, an organisation's legitimacy will increase if the expected outcome of its operation complies with the expected values and beliefs of constituents.

Unlike pragmatic legitimacy, moral legitimacy does not rely on whether an organisation's behaviour satisfies or complies with its evaluators' preferences, beliefs or economic benefits, but instead focuses on whether its behaviour or decision is "the right thing to do", regardless of environmental evaluators' perceptions and preferences (Suchman 1995, p.579). The essence of moral legitimacy is selflessness, because although an organisation may behave contrary to what society believes or expects is the right thing to do, that does not necessarily mean that it will be unacceptable to the environment. For instance, an NASB may modify or eliminate an accounting standard that it believes permits abuse of an accounting system. Although such decisions may have negative economic effects and may not comply with environmental evaluators' perceptions, preferences and beliefs, prevention of abusive accounting behaviour is the right thing to do.

The third type of legitimacy is cognitive legitimacy, which is based on cognition rather than on others' assessments or self-interest (Aldrich and Fiol 1994) and is based on taken-for-grantedness and comprehensibility (Suchman 1995). Cognitive legitimacy is the outcome of evaluators' long-term experiences and perceptions of an organisation's pragmatic and moral legitimacy (Kumar and Das 2007). In other words, it is the product of multiple events and decisions that cumulatively and gradually lead to a tipping point where cognitive legitimacy forms. According to Kumar and Das (2007, p.1443), cognitive legitimacy "is something that only gradually evolves and finds its roots in the schemata of the individuals working in an organization". Suchman (1995) identifies that organisations with taken-for-granted legitimacy reject any change to the current social structure and believe that alternative systems or changes are "literally unthinkable". On the other hand, legitimacy based on comprehensibility results from participants' struggle to unify their systems and beliefs into "coherent, understandable accounts" (Suchman 1995). The concept of comprehensibility explains actors' social behaviour through cultural models that offer rational suggestions for organisations' behaviour. Suchman (1995, p.582) suggests that:

> *"organizational activity will prove predictable, meaningful, and inviting; in their absence, activity will collapse not necessarily because of overt hostility (although this is certainly possible, given the threatening nature of the inexplicable), but more often because of repeated miscues, oversights, and distractions".*

Previous studies indicate that Suchman's (1995) types of legitimacy intertwine, overlap and co-exist (Brinkerhoff 2005; O'Dwyer et al. 2011; Watts et al. 2018), and that there is a "durability pendulum" (O'Dwyer et al. 2011). Pragmatic legitimacy is the easiest to achieve, but compared with the other types it is less durable. Cognitive legitimacy, on the other hand, is the hardest to acquire but the most durable (Cashore 2002; Kumar and Das 2007; O'Dwyer et al. 2011; Belal and Owen 2015). The next section discusses the use of legitimacy in accounting studies.

4.8 Legitimacy in accounting studies

In the accounting field, studies have investigated how NASBs use legitimacy to accomplish their institutional roles. Booth and Cocks (1990) define standard setting as a legitimisation process, stating that its main focus is on issuing standards that reflect and satisfy the prevailing hegemony. In this context, legitimacy theory supplements institutional theory with different types of legitimacy. These help deepen understanding of how NASBs' perceptions of legitimacy may influence their decision-making processes, because they may have varying levels of toleration for different entities and stakeholders in order to enhance legitimacy. In other words, NASBs may accept calls from major stakeholders but disregard the remainder in order to increase their pragmatic legitimacy. Suchman (1995) highlights that legitimacy theory has been used predominantly as a theoretical lens through which to address cognitive and normative forces that structure, constrain and empower actors. The essence of legitimacy theory is the concept of social contracts, whereby an organisation behaves or performs acts accepted by society in return for rewards, approval, and ultimately survival (Guthrie and Parker 1989; Deephouse et al. 2017). Richardson (1987, p.352) further emphasises "the role of accounting as a legitimating institution, i.e. providing a means by which social values are linked to economic actions". Society may place sanctions on organisations that fail to comply with the terms of their social contracts (Meyer and Rowan 1977; Deephouse 1996; Deegan and Unerman 2011). These sanctions may take various forms, such as social action (e.g. negative press, protests and destruction of image and reputation), legal action (e.g. lawsuits), and economic action, including boycotts, reduced demand for products, withdrawal of financial support and strikes (Deegan 2002; Aguilera et al. 2007; Deegan and Unerman 2011). However, according to Meyer and Rowan (1977, p.351), legitimacy "protects organizations from immediate sanctions" and is essential for their survival. For NASBs, acquiring and maintaining legitimacy suggests societal approval and protection.

Previous research on NASBs highlights the importance of legitimacy for accounting standard setting (e.g. Fogarty et al. 1994; Larson 2002; Durocher and Fortin 2010; Larson and Herz 2013; De Luca and Prather-Kinsey 2018). These studies demonstrate that legitimacy helps NASBs not only to survive, but also to acquire wider acceptance and approval of their outcomes and accounting standards. Fogarty et al. (1994) highlight that accomplishing legitimacy is a very important aim of NASBs, and Burlaud and Colasse (2011) observe that legitimacy is an essential element to assess and ensure appropriate implementation of accounting standards. This, in turn, helps accounting standards to be regarded as rational, institutional and taken for granted (Georgiou and Jack 2011).

Scholars have used Suchman's (1995) types of legitimacy to investigate NASBs' decision-making processes (e.g. Durocher and Fortin 2010; Georgiou and Jack 2011; Bamber and McMeeking 2016). Georgiou and Jack (2011) find that pragmatic legitimacy relates to the extent to which NASBs react to stakeholders' feedback and incorporate their interests into final decisions. Fundamental elements of NASBs' conceptual frameworks, which include transparency and decision-usefulness, are also assessed in terms of moral legitimacy. Procedural legitimacy is a strain of moral legitimacy and relates to procedural features of NASBs' decision-making processes (Durocher and Fortin 2010). In order to acquire procedural legitimacy, an NASB must establish a well-developed process that incorporates its stakeholders and their perceptions (Durocher and Fortin 2010; Bamber and McMeeking 2016).

Suchman's (1995) legitimacy management strategies have also been used to examine NASBs' strategic approaches. For instance, Durocher and Fortin (2010) investigate the legitimacy management strategies of the Canadian Accounting Standards Board (AcSB) with regard to its financial statement users. They highlight that the AcSB focuses on symbolic features rather than pragmatic concerns in order to acquire legitimacy. According to Durocher and Fortin (2010, p.497), "the AcSB's legitimacy management strategies clearly highlight that users remain a symbolic rhetorical category and not a true pragmatic concern in standard setting". In other words, the AcSB devotes its efforts to satisfying cultural accounts, rather than seeking the opinions of sophisticated users. Therefore, an NASB seeking to acquire or increase its legitimacy must be aware of its stakeholders' perceptions. In another study, Sinclair and Bolt (2013) examine how the New Zealand accounting standard setter incorporates the opinions of third-sector (voluntary and not-for-profit) entities into the standard-setting process. They find that the NASB achieves pragmatic legitimacy by complying with its environment. Their conclusion also supports the notion that compliance with external expectations may help build legitimacy, which ultimately helps to achieve cognitive legitimacy.

In summary, previous scholars' investigations of legitimacy in the context of NASBs highlight the importance of legitimacy in retaining the right to issue and modify accounting standards (e.g. Fogarty et al. 1994; Larson 2002, 2007; Kim 2015; Bamber and McMeeking 2016). Previous studies also demonstrate the importance of strategically managing legitimacy for NASBs' survival. The next section summarises and provides conclusions on the material covered in this chapter, and presents the process of creating the skeletal theoretical framework of this study based on institutional theory, power theory and legitimacy theory, as well as relevant entities and factors discussed in the literature review in Chapter 2, including authority, history and culture.

4.9 Skeletal theoretical framework

This study's adoption of the MRT approach permits the use of previous literature to create a skeletal theoretical framework that can be used throughout the research process. Scholars have used institutional theory as a theoretical lens in their investigations of various phenomena relating to NASBs' decision-making processes, and more specifically DiMaggio and Powell's (1983) institutional isomorphism (e.g. Covaleski and Dirsmith 1988; Carpenter and Feroz 2001; Hussain and Gunasekaran 2002; Dillard et al. 2004; Mir and Rahaman 2005; Albu et al. 2011; Al-Htaybat 2018; Krishnan 2018). This indicates the importance and relevance of institutional theory and DiMaggio and Powell's (1983) institutional isomorphism to this study, since its aim is to gain a deeper understanding of EU NASBs' decision-making processes and behaviours toward IFRS for SMEs. However, scholars have also used other theoretical lenses, including power theory, and more specifically Lukes's (1974, 1977) work on power (e.g. Hope and Gray 1982; Hussein and Ketz 1991; Sikka 1992; Kwok and Sharp 2005), and legitimacy theory, including Suchman's (1995) different types of legitimacy (e.g. Fogarty et al. 1994; Larson 2002, 2007; Kim 2015; Bamber and McMeeking 2016; De Luca and Prather-Kinsey 2018), in their investigations of various phenomena relating to NASBs' decision-making processes. Scholars' utilisation of different theoretical lenses highlights the importance of various environmental factors that are deemed relevant to understanding NASBs' behaviours toward issuing, accepting or rejecting accounting regulations. A single theoretical lens cannot capture every characteristic of every phenomenon under investigation. Thus, the foregoing discussion of institutional theory, power theory and legitimacy theory is essential to this study because it forms the basis for its skeletal theoretical framework. The previous literature discussed in Chapter 2 also forms the basis of the skeletal theoretical framework because it highlights relevant entities, including the EC, national governments and stakeholders, and environmental factors such as authority, history and culture that may influence governments' and NASBs' decision-making processes and final outcomes.

Institutional theory implicitly discusses the influence of power in the context of coercive isomorphism (DiMaggio and Powell 1983). However, its limitations include considering institutionalisation as an outcome rather than as a process (e.g. Zucker 1987; Dillard et al. 2004; Lawrence 2008), which is significant for this study because it aims to investigate NASBs' decision-making processes. In order to minimise this limitation, this study supplements institutional theory with power theory, and more specifically Lukes's (1974, 1977, 2005) work on power, including his three dimensions of power, to develop different dimensions of coercive isomorphism. In other words, the skeletal framework creates three levels of coercive isomorphism that capture various entities' levels of influence throughout NASBs' decision-making processes, including discussion of accounting issues, agenda entry, discussion of the ED and final outcomes, as shown in Table 4.1.

Table 4.1: Skeletal theoretical framework based on institutional theory

Mechanism	Type	Definition	References
Coercive isomorphism	Coercive/first dimension of power	Explicit influence of an individual, entity or group of entities modifying or having the potential capacity to modify NASBs' decision-making processes.	Lukes (1974, 1977, 2005), DiMaggio and Powell (1983), Hope and Gray (1982), Mir and Rahaman (2005), Albu et al. (2011)
	Coercive/ second dimension of power	Implicit or explicit influence of an individual, entity or group of entities to limit NASBs' agenda entry or discussion of a particular issue which, if discussed and resolved, might challenge or damage their preferences (political, technical, cultural or personal) in cases of decision and non-decision making.	Lukes (1974, 1977, 2005), Hope and Gray (1982), DiMaggio and Powell (1983), Mir and Rahaman (2005), Albu et al. (2011)
	Coercive/third dimension of power	Domination of an individual, entity or group of entities over NASBs' agenda entry and decision-making processes which	Lukes (1974, 1977, 2005), Hope and Gray (1982), DiMaggio and Powell

Mechanism	Type	Definition	References
		cause them to reject or unconsciously ignore suitable alternatives to the current system meaning accounting regulations are taken for granted and that changes were never considered.	(1983), Mir and Rahaman (2005), Albu et al. (2011)
Mimetic isomorphism	Mimetic/ pragmatic legitimacy	An NASB's adoption of accounting standards issued by other entities that address similar issues to its own environment, aiming to satisfy its closest evaluators to acquire legitimacy.	DiMaggio and Powell (1983), Suchman (1995), Mir and Rahaman (2005), Albu et al. (2011), Bamber and McMeeking (2016)
	Mimetic/ moral legitimacy	An NASB's adoption of accounting standards issued by other entities after proper evaluation and consideration to solve current issues or problems, regardless of the perceptions of its closest evaluators and its own self-interest.	
	Mimetic/ cognitive legitimacy	An NASB's continuous adoption of accounting standards that successfully resolve environmental issues or technical problems; or continuous acceptance of taken-for-granted accounting standards because the NASB does not believe other alternatives are worth adopting or creating.	
Normative isomorphism	Normative/ pragmatic legitimacy	Influence of the education system or accounting profession to diffuse what external entities believe is right, which may increase their legitimacy and influence over the NASB's agenda entry or decision-making process.	DiMaggio and Powell (1983), Suchman (1995), Albu et al. (2011), Bamber and McMeeking (2016)
	Normative/ moral legitimacy	Influence of the education system or profession to diffuse appropriate and rigorous behaviour, regardless of self-interest and external entities' beliefs, which may influence the NASB's agenda entry or decision-making process.	
	Normative/ cognitive legitimacy	Influence of the education system or profession to continually diffuse appropriate and acceptable behaviour, or taken-for-granted behaviour, causing external parties and the environment to reject any other behaviour in the long term.	
History and Culture	Power/ Legitimacy/ proximity	An NASB's adoption of accounting standards if it shares similar characteristics with national accounting standards as developed over time; or	Lukes (1974, 1977, 2005), Perera (1989), Ding et al. (2005), Richard (2005), Sharma and Lawrence (2008), Albu et al. (2011),

Mechanism	Type	Definition	References
		acceptance of accounting standards if they do not contradict, or have a high level of proximity, with external stakeholders' beliefs and preferences.	Hoffmann and Detzen (2013), Ramanna (2013), Nobes and Parker (2012)
Authority	Power	Influence of an NASB's legislative power on its behaviour toward the adoption of IFRS for SMEs.	Hail et al. (2010), Zeff (2010), Ramanna (2013), Krishnan (2016)

Source: Author's own work

Institutional theory's acknowledgement of legitimacy is limited (e.g. Dart 2004; Phillips and Malhotra 2008; Scott 2008) because it disregards different types of legitimacy (Scott 2008). In order to minimise this issue, the skeletal theoretical framework supplements normative and mimetic isomorphism with legitimacy theory, and more specifically Suchman's (1995) different types of legitimacy. An NASB's compliance or non-compliance with normative and mimetic pressures may positively or negatively influence its environmental entities' perceptions of it. This may lead to an increase or decrease in legitimacy, indicating that its decision-making process may be influenced by its desire to improve its image by promoting its own legitimacy. This shows the existence of multiple levels of normative and mimetic isomorphism, depending on the type of legitimacy that an NASB is trying to maximise. In other words, an NASB's normative and mimetic isomorphism can each be explained at three different levels, based on its decision-making process and whether it has analysed and properly considered its environment's best interests in that process, as shown in Table 4.1.

In addition, scholars also criticise institutional theory for focusing only on institutions and disregarding individuals. In the context of institutional theory, actors are embedded in institutions and are influenced by cognitive, normative and regulative processes that shape their preferences and identities (Friedland and Alford 1991; Clemens and Cook 1999; Seo and Creed 2002; Van Dijk et al. 2011). This raises questions about how individuals can innovate new practices and convince others to adopt them, and why they would innovate in the first place (Garud et al. 2007; Englund et al. 2013). Influential or power-holding individuals may be capable of forcing change but lack the motivation to do so, whereas innovative individuals may be capable of creating new practice but lack the power to enforce it (Garud et al. 2007).

In order to minimise this limitation, researchers (e.g. Garud and Karnøe 2003; Mutch 2007) suggest that individuals are knowledgeable agents who reflect on their actions and behaviour, rather than accepting taken-for-granted rules and preferences. All individuals have various types of identity, such as occupational or career (Ashforth et al. 2008). These may shape their preferences, motivations and self-definition, and ultimately their behaviour (Riketta and Van Dick 2005; Ullrich et al. 2007; Horton and de Araujo Wanderley 2016). This illustrates the importance of individuals and highlights the need to investigate them further. This study addresses this issue by interviewing previous and current members of NASBs. Each board is composed of individuals, and each individual may have different identities. Thus, the focus of this study is on these individuals and how they interact with and are influenced by their environment and other entities' perceptions.

Since this study considers the influence of various environmental factors on governments' and NASBs' decision-making processes, it was deemed important to categorise them as visible or unseen, as shown in Figure 4.1. The visible factors are more evidential, obvious, and concrete (foreground), while the unseen factors are more nebulous, less obvious, interacting, intangible (background) factors. The visible environmental factors include: the influence of various entities such as the EC, national governments, board members or stakeholders on governments' and NASBs' decision-making processes. Their participation, involvement or demanded changes could be documented; meaning concrete evidence of such influence might be available. For instance, even though EU NASBs may be independent entities, they do not have absolute authority since they cannot issue accounting standards that would contradict EC accounting directives or national governments' laws and regulations. This is because such compliance might be embedded and documented in their roles as standard-setters. Thus, the EC and national governments' coercive pressure on NASBs is obvious and concrete evidence of their influence might be available. On the other hand, unseen environmental factors include authority, and the national accounting history and culture. These factors are seldom discussed during governmental and NASBs' decision-making processes, meaning their influence is less obvious and lacks concrete evidence but they still influence decision makers' processes. The influence of these factors might be discovered by interviewing individuals who participated in the decision-making process because, as a result of their direct involvement, they may shed light on how these less obvious factors influenced the board's process.

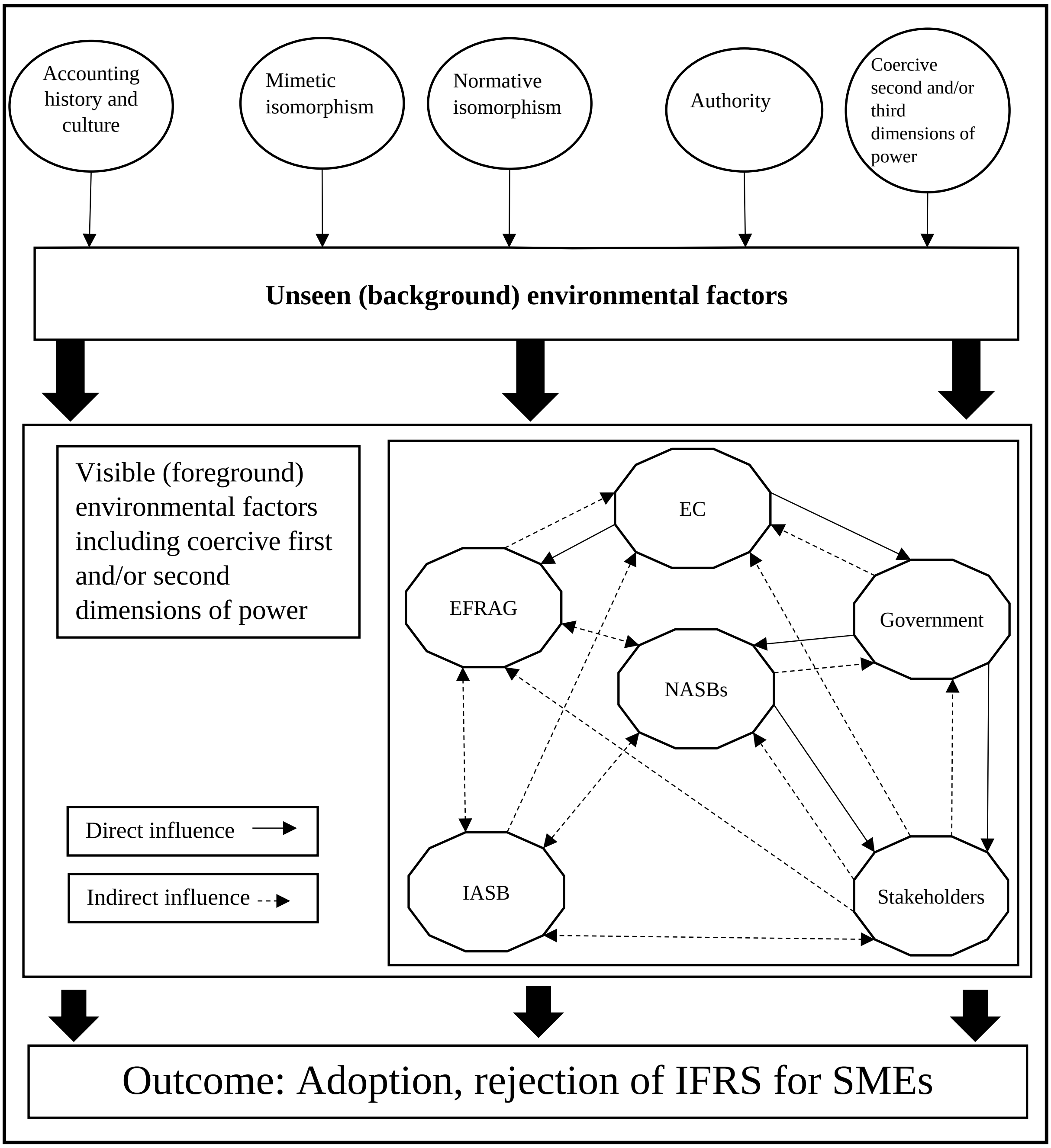

Figure 4.1: Skeletal theoretical framework

Source: Author's own work

The visible and unseen environmental factors form an important part of the skeletal theoretical framework as shown in Figure 4.1 above. Within the Figure, the unseen factors are separated to reflect their more background and less obvious nature. The unseen (background) environmental factors include mimetic isomorphism, normative isomorphism and coercive isomorphism which are drawn from institutional theory and have already been discussed in Section 4.2 of this chapter. The other unseen factors: authority, accounting history and culture were identified and discussed in the review of previous literature in Chapter 2 but are now further developed below.

Previous studies have suggested that governments' and NASBs' perceptions of their authority influence their decision-making processes (Hail et al. 2010; e.g. Zeff and Nobes 2010; Van Mourik and Walton 2018). For instance, Hail et al. (2010) suggest that the US is unwilling to adopt IFRS because this decision would have a significant impact on its legislative power, as it would certainly affect the US Congress, the FASB and the SEC. This is because IFRS is set by the IASB, meaning adoption requires authority for accounting standards to be relinquished to a supranational entity, placing NASBs in the position of agents or consultants of the IASB. Unlike the US approach, the EC mandated adoption of IFRS and has established mechanisms to protect its authority by granting it the right to veto any future changes, and any amendments to IFRS must be endorsed by the EC, the European Parliament, the Standards Advice Review Group, EFRAG and the Accounting Regulatory Committee (Zeff and Nobes 2010; Van Mourik and Walton 2018). Thus, these entities' perception of their authority, and how this might be hindered by adopting accounting standards issued by a foreign entity, have influenced their behaviour towards IFRS. Since the prior literature discussed in sub-section 2.2.4 suggests the relevance of such entities' authority on the decision-making process, the skeletal theoretical framework of this study defines authority as being the influence of an NASB's legislative power on its behaviour towards the adoption of IFRS for SMEs.

Moreover, as practices, ideas and beliefs are not set in stone but, rather, evolve over time (Sahlin and Wedlin 2008), environmental factors, including authority, and history and culture, may interact with, overlap or influence one another. For instance, NASBs' authority may influence and/or in turn be influenced by national accounting history and culture. This is because NASBs' acquisition of authority may help protect accounting history and culture by issuing accounting regulations that comply with and preserve national accounting features. Furthermore, if NASBs suggest or introduce accounting standards that do not comply with historically and culturally embedded accounting traditions, society may place sanctions on them, since NASBs failed to comply with the terms of their social contracts (Meyer and Rowan 1977; Deephouse 1996; Deegan and Unerman 2011), which may diminish their authority. This, in turn, suggests that regulators' authority may influence and/or be influenced by history and culture.

It is especially difficult to segregate accounting history and culture as they are interrelated and influence one another. For instance, a history of certain accounting features may cause them to become embedded in national culture. As a result, accounting history and culture were simultaneously defined in the skeletal theoretical framework presented in Table 4.1 and discussed together in the review of prior literature, the findings of this study and is further elaborated in the remainder of this chapter.

As discussed in sub-section 2.2.3, Ramanna (2013) suggests that one of the two reasons that explain Canada's adoption of IFRS lies in its British roots, since Canada is a former UK colony. This historical association influenced the early development of Canada's accounting profession to follow the British tradition, it used Britain's Companies Acts as a framework. The second reason is that Canada's principles of corporate disclosure were created in accordance with "the 1844 British law on joint stock companies" (Gray and Kitching 2005 cited in Ramanna 2013, p.15). Therefore, Canada's closeness to the UK caused it also to be proximate to the IASB accounting standards, which provides an explanation for its adoption of IFRS and how a historical context influenced the country's NASB decision-making process.

Albu et al. (2011) also suggest that a country's cultural accounting tradition can influence its reformation or adoption of accounting standards. According to Albu et al. (2011, p.85), the first stage of Romania's accounting reform was based on the French accounting standards because "the adoption of a French-based accounting model was, in this context, considered as being a natural decision, owing to close cultural and economic ties between Romania and France". Similarly, the UK's adoption of IFRS illustrates the influence of national accounting history on accounting regulations. For instance, in the UK an essential accounting feature, the "true and fair view", was introduced in the 1948 Companies Act (HMSO 1965; Parker 1989; Nobes 1993; FRC 2014b). Since the introduction of this phrase it has played a significant role and been widely used in the accounting standards published in the country, while it has also been exported to British Commonwealth countries, the EC and many EU countries (Parker 1989; Nobes 1993; Nobes and Parker 2012; FRC 2014b), meaning such a historical event has shaped the UK accounting standards and influenced its standard setters' decision-making processes. When the EC mandated the adoption of IFRS in 2002 (EC 2000, 2002), the FRC (2014b, p.3) suggested that implementation of IFRS in the UK did not hinder the essential concept of the "true and fair view" because "fair presentation under IFRS is equivalent to a true and fair view". The existence of this feature in the IASB's accounting standards eased adoption of IFRS in the

UK. In other words, accounting standards issued by UK NASB share similar historical and cultural features and characteristics to the accounting standards issued by the IASB.

Based on the previous literature discussed in sub-section 2.2.3, this study defines accounting history and culture as an NASB's adoption of accounting standards if it shares similar characteristics with national accounting standards as developed over time; or the acceptance of accounting standards if they do not contradict or have a high level of proximity, with external stakeholders' beliefs and preferences. The main difference between the definition of this study and prior literature is that the former focuses on and articulates the influence of historical and cultural accounting traditions on NASBs' decision-making processes rather than the latter's general and broad concepts. In addition, the definition of this study considers how these factors influence stakeholders' and NASB members' behaviour, suggestions or demanded changes, because these entities' perceived beliefs and preferences might be developed based on national accounting history and culture.

Therefore, a review of previous literature provides useful definitions and discussion of visible and unseen environmental factors. This review has helped define and enrich the skeletal theoretical framework presented in Table 4.1 and in Figure 4.1 and suggests how these factors may interrelate and/or influence one another. This, in turn, enables exploration of EU governments' and NASBs' interactions with, and the influence of, visible and unseen environmental factors on their decision-making processes with regard to their varying behaviours towards IFRS for SMEs, thus providing a deeper understanding of their processes.

4.10 Conclusion

This chapter has discussed relevant theories based on previous studies of NASBs' decision-making processes, which have been used to create the skeletal theoretical framework used throughout the research process of this study. In the remainder of this thesis, Chapters 5 and 6 present analyses of the data gathered and the primary findings of this study in light of the skeletal theoretical framework; Chapter 7 develops the skeletal theoretical framework by creating a version of it for each jurisdiction, showing the strength of some visible and unseen environmental factors; and Chapter 8 discusses the contributions and limitations of the study and makes suggestions for future research.

Chapter 5: UK NASB's Decision-Making Process – Adoption of IFRS for SMEs

5.1 Introduction

This chapter examines how and why the UK NASB adopted IFRS for SMEs with major modifications, the influence of the standard's advantages and disadvantages on the adoption outcome, and who was involved and to what extent they influenced the UK board's final decision. The chapter is organised as follows. Section 5.2 provides an overview of the UK's adoption of IFRS for SMEs. Section 5.3 sets out the events that led to adoption of the standard and its mandatory application in 2015. Section 5.4 discusses the advantages and disadvantages of adopting the standard and how it influenced the UK NASB's decision-making process. Sections 5.5 to 5.8 draw on the theoretical framework introduced in Chapter 4 (Table 4.1) to analyse various factors that influenced the UK NASB's adoption decision. Section 5.5 discusses the perceptions of interviewees from the UK NASB regarding the decision (e.g. adopt, reject, or adopt with major modification). Section 5.6 focuses on various entities involved in the UK NASB's adoption decision, and how they influenced the final outcome. Section 5.7 illustrates the UK NASB's authority, and how it was perceived as a reason for making certain changes to protect its legislative power. Section 5.8 explains the UK's historical, cultural and accounting tradition, as well as its proximity to the IASB and the US, which were seen as another motive for adopting IFRS for SMEs. Finally, Section 5.9 summarises and provides conclusions on the topics covered in this chapter.

The next section provides an overview of the UK NASB's decision-making process for the adoption of IFRS for SMEs with major modifications.

5.2 Overview of UK NASB process of IFRS for SMEs adoption

As a result of the EC mandated adoption of IFRS for use by public companies' group financial statements, the UK started the process of updating the version of UK GAAP that existed between 2002 and 2005 (DTI 2004; ASB 2004). UK GAAP was issued by the FRC's predecessor the ASB which is now entitled the Corporate Reporting Board and is part of the FRC (ICAEW 2018a). The ASB's due process was initially for the board to discuss approaches and strategies with regard to the regulation of accounting standards. Depending on the stage of the process, staff members would either prepare a discussion paper or an ED, which were ultimately deliberated on by board members prior to publication. There would then be a consultation process inviting the general public to provide comment letters and feedback on the proposed ED. Occasionally, staff members would seek advice from stakeholders if the board deemed it necessary, and in the case of IFRS for SMEs, they proactively reached out to UK SMEs and their investors to consult them further on the EDs (Interviewees 6 and 11). Also, if the decision was complicated, staff members would prepare a discussion paper setting out the various options available. The board would discuss these options and agree on the most appropriate choice, and staff members would then draft a paper based on the specific option selected by the board. When the public feedback window closed, staff members would analyse the comment letters and create new proposals based on them. Any new proposal would again be discussed by the board, and the suggested amendments and final standards would be based on comments received and decisions taken by the board (Interviewees 1 and 6). Figure 5.1 summarises the timeline of events that led to the UK's adoption of IFRS for SMEs with major modifications. These are discussed in more detail in Section 5.3. The next section discusses in more detail the UK NASB's decision-making process for the adoption of IFRS for SMEs with major modifications.

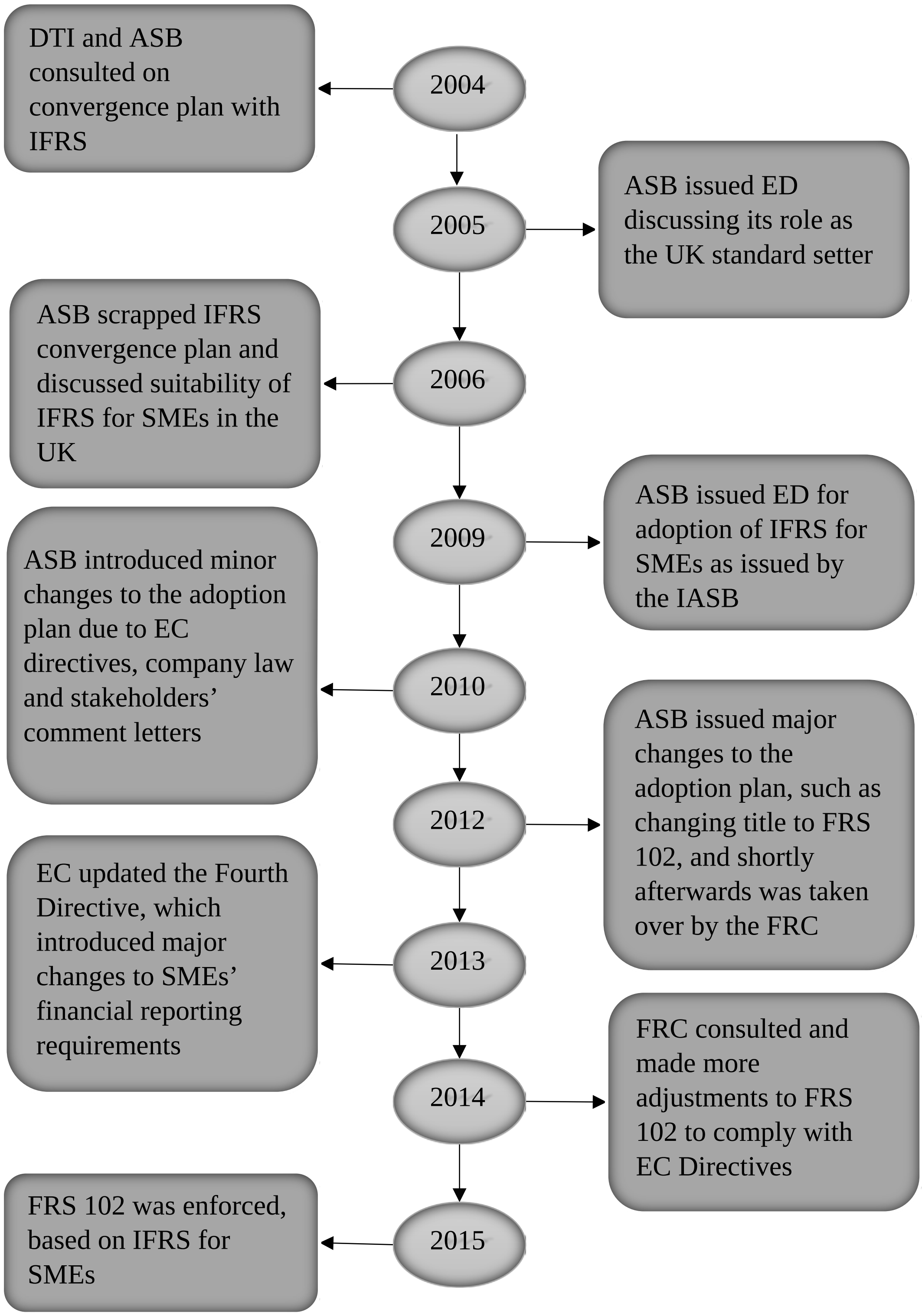

Figure 5.1: Timeline of events in the adoption of IFRS for SMEs in the UK

5.3 UK NASB's decision-making process: The case of adoption of IFRS for SMEs

One characteristic of the ASB's accounting standards was their similarity with the IASB's accounting regulations. According to a former FRC member, "financial reporting standards developed by the ASB and those later standards were, in effect, UK versions of international standards" (Interviewee 11). At that time, the IFRS for SMEs had not yet been created and the

ASB made reference to IFRS. Between 2002 and 2005, various consultation processes were conducted on how UK financial reporting should change. In 2004, the then DTI and the ASB consulted on a strategy for convergence with IFRS (DTI 2004; ASB 2004). The ASB (2004) proposed that large companies should use IFRS, that UK GAAP should converge with IFRS, and that smaller companies should follow the existing Financial Reporting Standard for Smaller Entities (FRSSE). However, the ASB highlighted that although the FRSSE would not currently be modified in accordance with IFRS standards, future periodic reviews would take these into account.

The ASB issued another ED in 2005, which aimed to discuss further the ASB's future role as the UK standard setter. This ED indicated that the previously proposed financial reporting changes did not affect the ASB's fundamental aim, and reiterated the plan to fully converge UK GAAP with IFRS (ASB 2005). There was opposition to this from consultees who argued that the implementation of IFRS would be complicated, because at that time public companies were grappling with the use of IFRS: "Ooh this looks more complicated than we thought so should you be doing this?" (Interviewee 11).

In January 2006, the ASB conducted a public meeting aiming to discuss its convergence of UK GAAP with IFRS, but also seeking to issue accounting standards that placed a proportionate burden on entities applying them, as well as adopting a phased approach (ASB 2006). At that time, the ASB knew that the IASB was working on a project entitled the "SMEs Project", which might provide financial reporting solutions for smaller companies. During the meeting, ASB chair, Ian Mackintosh discussed the feedback received on the previously published EDs and indicated that various issues had been raised by the comment letters that the ASB had received, including that the adoption of IFRS might be complex and difficult to implement (ASB 2006). In addition, the ASB discussed the IASB's SMEs Project and there was general support for its use, but with modifications in order to make it applicable to the UK economy (ASB 2006; Interviewee 5). Yet, in 2009, the ASB issued a policy proposal on the future of UK GAAP, seeking feedback from stakeholders with regard to its plan to adopt IFRS for SMEs as issued by the IASB (ASB 2009). In adopting the standard, the ASB proposed a three-layered system. Companies with traded securities or fiduciary capacity would be required to follow EU-adopted IFRS; the second tier would comprise large private companies; and SMEs would apply IFRS for SMEs as well as the FRSSE for smaller companies.

Similar to the IASB, the ASB suggested a distinction between companies based on the public accountability principle rather than a quantified size. Remarkably, the ASB definition of public accountability was based on, and qualitatively identical to, that introduced by the IASB. According to the ASB (2010a, p.7):

> *"An entity has public accountability if: as at the reporting date, its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or as one of its primary businesses, it holds assets in a fiduciary capacity for a broad group of outsiders and/or it is a deposit taking entity for a broad group of outsiders. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds or investment banks"*.

The distinction based on public accountability was relevant in this thesis because it is used to distinguish which companies are mandated to comply with EU-adopted IFRS instead of simpler accounting standards, such as IFRS for SMEs, UK GAAP or FRSSE. This in turn fuelled opposition of many national stakeholders, including banks, credit unions and entities that applied sector-specific Statements of Recommended Practice (SORPs), such as insurance companies and charities, and demanded removal of such a distinction from the final accounting standard.

In the meantime, the ASB had to consider whether the proposed IFRS for SMEs standard complied with EU law, specifically the EC Fourth and Seventh Directives. The ASB conducted a comparison of EC accounting directives and IFRS for SMEs and:

> *… didn't find any legal differences that were seeming to be a show stopper. And then EFRAG … found six areas of incompatibility, none of which was huge, so with some tweaking you could have some changes to the SME standard that could make it compatible with European law* (Interviewee 11).

As previously indicated, the ASB's original plan was to adopt IFRS for SMEs as issued by the IASB; however, changes would have to be made to the EC directives in order to make it legal to adopt the standard. In addition, the ASB received many comment letters that opposed both suggested definitions, as well as the adoption of IFRS for SMEs with no modification (ASB 2012b; Interviewee 11). As a result, in order to enable adoption of the standard, the ASB had to change its plan, and changes were required by law and demanded by stakeholders. The ASB then issued another ED in 2010 entitled "Financial reporting standards for medium sized entities" (FRSME). This new proposal retained public accountability to distinguish between the use of IFRS and FRSME; however, it exempted entities that met certain criteria, and made adjustments to the standard itself, as illustrated in Table 5.1 (ASB 2010a). For example, the ASB changed Section 29 Income Tax of IFRS for SMEs to the wording of IAS 12, because the latter had been recently updated under IFRS whereas the former was an old draft of it. The ASB exemption allowed any entity, such as small credit unions, to use FRSME if they had assets less than £3.26 million, and a turnover below £6.5 million and fewer than 50 employees. In other words, at that time the ASB did not significantly modify IFRS for SMEs because it believed that "the IFRS for SMEs, modified as little as is feasible, is the best option to replace UK FRS" (ASB 2010a, p.13).

Table 5.1: Changes proposed to IFRS for SMEs

Amendment	**Reason**
Conflicts with EU directives, for example: • Negative goodwill • Extraordinary items • Treatment of associates and joint ventures	Ensure compliance with legal requirements
Refer to company law for requirement to prepare consolidated accounts Exemption from parent company and subsidiary cash flow statements	Avoidance of gold-plated legal requirements
Replace Section 29 Income Tax with IAS 12	IFRS for SMEs reflects abandoned proposal for IFRS

Source: ASB, 2010

Two years later, the ASB issued amendments to the previously published proposal for FRSME, for the last time as the UK national accounting standard setter before it became part of the FRC. According to a former FRC member:

> *There are two boards. The main standard setting – the main board that does all the recommendations, does all the work – is the Accounting Standards Board, but the FRC itself, which is the overarching body across all standards in the UK, as a board which doesn't get into the detail of standards setting but legally has to approve, it's the body that's approved by company law to actually issue the standards* (Interviewee 1).

The major changes made by the ASB included changing the title of the standard to FRS 102, reintroducing options that had been eliminated in the previous EDs, such as capitalisation of borrowing costs, revaluation of intangible and tangible assets and carrying forward certain development costs, and basing balance sheet and income statement presentation requirements on UK company law (ASB 2012b; Interviewee 11). The proposed changes were to be enforced by 1 January 2015, with an option for early application. Although the proposed changes seemed more significant than previous proposals, the ASB highlighted that they were based on careful consideration of comment letters received, and would reduce transition costs because eliminating public accountability would limit the use of EU-adopted IFRS, while the reintroduced options permitted the use of current treatments available at that time.

Having taken over the ASB's responsibilities as the UK national accounting standard setter (ICAEW 2018a), the FRC issued eight amendments to FRS 102 between 2013 and 2015, including changes to hedge accounting, pensions obligations, shares-based payment transactions, fair value hierarchy disclosures and other amendments arising from updated EC directives and company law. The new accounting Directive 2013/34/EU imposed significant changes on the small companies regime, including reductions in the financial reporting disclosure requirements for micro and small entities *only* to the extent indicated in the new directive, the introduction for the first time in the UK of a definition of micro-entities, previously called "smaller entities", an increased turnover limit from £6.5 million to £10.2 million for entities to apply FRS 102, and prohibition of the use and remeasurement of current value by micro-entities (FRC 2014a). As a result, the FRC had to update FRSSE and parts of FRS 102 in order to comply with the new accounting directive.

After the FRC had consulted on the expected new changes, it decided that FRSSE should be withdrawn because it would not be beneficial for smaller companies to use accounting standards based on an older version of UK GAAP which was no longer in use. It issued FRS 105, based on FRS 102 but with limited disclosure as required by the new EC directive, and added Section 1A to FRS 102 for small entitles regime (FRC 2015a, 2015b). Therefore, the UK currently have FRS 105 as a regime for micro-entities, FRS 104 for entities using FRS 102 to prepare their interim reports, FRS 103 for insurance contracts, Section 1A of FRS 102 for small entities, FRS 102 for entities not included under FRS 105 or FRS 101, including not-for-profit entities and SMEs based on size criteria, FRS 101 with reduced disclosure requirements for the individual financial statements of subsidiaries and ultimate parents and disclosure and measurement requirements for EU-adopted IFRS, and FRS 100 for entities required to prepare financial statements in accordance with accounting standards, legislation or regulations applicable in the UK. Thus, all UK accounting standards currently enforced are based on the IASB's IASs, regardless of size of entity. The level of complexity in these standards and disclosure requirements increases as entities move through each regime, as shown in Figure 5.2.

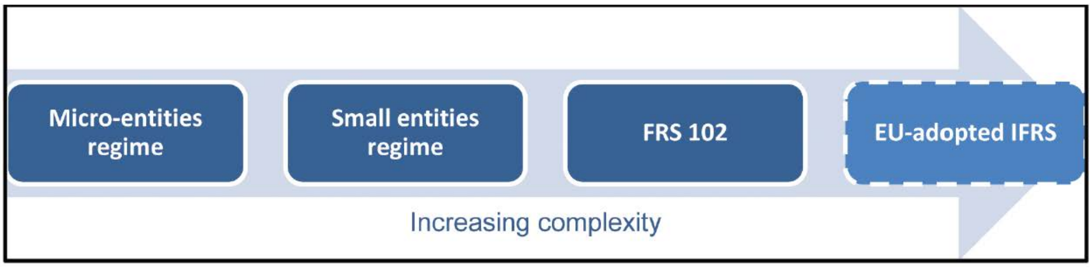

Figure 5.2: Complexity of UK accounting standard regimes

Source: FRC, 2015a

From this discussion of the UK decision-making process with regard to the adoption of IFRS for SMEs, it can be seen that many actors were influencing in the decision. These included the EC, the UK government, and various national stakeholders such as preparers, credit unions and not-for-profit entities. Therefore, a range of entities may have significantly affected the board's decision-making process, which may have influenced the UK NASB to change its plans.

The next section discusses the UK NASB's perception of the advantages and disadvantages of IFRS for SMEs and its influence on the decision outcome.

5.4 UK NASB's perceptions of the advantages and disadvantages of IFRS for SMEs and its influence on the decision

When the IASB issued its IFRS for SMEs ED, it stated that the motive for issuing the standard was that NASBs worldwide supported the IASB's development of a standard aimed at SMEs (IASB 2007b). The IASB promoted the adoption of its standard based on an argument that the perceived benefits would include reduction of the financial reporting burden on SMEs if they were required to apply IFRS, improved audit consistency, easing of the education and training burden, harmonisation of SMEs' financial reporting which would help them access international funds, and simplification of SMEs' cross border activities, including SMEs' relationships with foreign suppliers (IASB 2007b). Research has found that adoption of accounting standards is determined mainly on the basis of cost–benefit analyses (Kaya and Koch 2015; Saucke 2015). Therefore, this section discusses the UK NASB's perception of the perceived advantages of IFRS for SMEs and how it influenced the adoption decision.

5.4.1 Advantages of IFRS for SMEs

5.4.1.1 Shared conceptual framework for IFRS and IFRS for SMEs

A fundamental feature of IFRS for SMEs, and an advantage of adopting the standard, was its shared conceptual framework with IFRS (IASB 2009; Ernst & Young 2010; EC 2010; AICPA 2018). According to Interviewee 1, an essential reason for adopting the standard was the UK's desire to align SMEs' accounting standard principles with those applicable to large companies because, as companies grow, accounting becomes more difficult. At some point, companies will have to change their accounting system completely if accounting regulations are inconsistent between large entities and SMEs.

However, in addition to the UK NASB's desire to reduce small companies' transition burden as they grow, harmonisation or use of a common framework for SMEs and public entities would also help the standards setter because it would no longer have to maintain and update two different sets of financial reporting regulations. Interviewee 4 stated that adoption of IFRS for SMEs as issued by the IASB would have eased the standard-setting process because IFRS and IFRS for SMEs shared a similar conceptual framework.

Another reason for the standard's adoption was that the UK NASB had an urgent need to update UK GAAP, which was perceived as "very old fashioned" (Interviewee 5) and included a mixture of ancient, old and newer convergences and some unconverged accounting standards:

> *Old UK standards had this mix of statements of standard accounting practice, original financial reporting standards produced by the Accounting Standards Board. You had then converged standards prepared by the Accounting Standards Board that were very very similar to IFRSs but some of the older ones were not and so there was a real mix of standards … It was basically sweeping away that mix of very old, slightly old, newer convergences, some not converged* (Interviewee 11).

The last advantage relating to the shared conceptual framework of IFRS for SMEs was a reduction in education and training costs (EC 2010). Prior to the adoption of IFRS, accountants studied UK GAAP in universities, their accounting exams were based on it, and they were trained to audit financial statements prepared in compliance with it. However, due to the shift requiring all public companies to comply with IFRS, education started to change and accountants started to learn IFRS rather than UK GAAP, and when they tried to learn both, inconsistencies between them caused great confusion (Interviewee 1). Thus, when the ASB proposed the adoption of IFRS for SMEs, it aimed to eliminate the confusion caused by the existence of two different bases for preparing financial reporting. This would reduce training and education costs for accountants and other institutions (ASB 2009, 2010b, 2012b; Interviewees 1 and 6).

The ASB wanted to reduce the number of different frameworks available and to update UK GAAP in order to eliminate the existing mixed standards, as well as reduce the cost of educating and training accountants. However, these benefits were not the only reasons for the adoption decision. The next sub-section investigates the proximity of IFRS for SMEs to UK GAAP and its influence on the adoption decision.

5.4.1.2 IFRS for SMEs' proximity to UK GAAP

Since the former UK GAAP was influenced by IFRS/IASs, national stakeholders were already familiar with the concepts of IFRS for SMEs, but were not completely familiar or satisfied with the IASB's simplification of and limited options in the standard. As a result, when the ASB consulted with national stakeholders, they generally supported the concepts in IFRS for SMEs but requested amendments to the proposed standard (ASB 2010a). The ASB often contributed and participated in the IASB decision-making process which increased the standard's closeness to the UK in turn eased its acceptance. According to Interviewee 6:

> *The fact we had input into the IASB's process tended to mean that they produced standards that were more akin to UK GAAP than they might otherwise have been, and therefore, at the end of the day, adopting IFRS, or indeed IFRS for SMEs, was easier or more palatable.*

Another explanation for national stakeholders' desire to adopt IFRS for SMEs was that, in the UK, the IFRS philosophy was accepted as part of the country's existence, so it was much easier to move to IFRS for SMEs (Interviewees 13 and 14). In the case of the UK's adoption of IFRS, when the EC mandated its adoption in 2002, the UK was less affected than other countries because the pre-IFRS standards were closer to the adopted IFRS (Interviewee 2). In addition, stakeholders supported the adoption of IFRS for SMEs because it was much less complicated burdensome and required less disclosure than the ASB's proposed plan to converge UK GAAP with IFRS. According to Interviewee 1:

> *IFRS is very complex, which is not applicable to many companies. It's got very, very heavy disclosure requirements which are really geared up to public companies, and the more we looked at this, the more it seemed obvious that it was not appropriate to use that across the board.*

In the case of large companies, they also supported the adoption of IFRS for SMEs because it would be easier for their subsidiaries to prepare group financial statements in accordance with the standard rather than IFRS, which would reduce preparation costs (Interviewee 11). Thus, national stakeholders' general support was another motivation for the UK NASB to adopt IFRS for SMEs. However, the standard also had disadvantages because national stakeholders demanded changes and the FRC had frequently amended FRS 102. These disadvantages are discussed in the next sub-section.

5.4.2 Disadvantages of IFRS for SMEs

5.4.2.1 Oversimplification

According to the ASB (2012a, 2012b), adoption of IFRS for SMEs with no modification did not satisfy stakeholders' needs and was oversimplified compared with UK GAAP. The standard removed many options that were permitted under IFRS and UK GAAP. These included revaluation of intangible and tangible assets, carrying forward certain development costs, and capitalisation of borrowing costs. The UK's advanced economic environment comprised many financial institutions and very large private companies, such as John Lewis (Interviewee 1). Although these entities were not required to produce financial statements in accordance with EU-adopted IFRS because they were not listed, very complex businesses could not simply apply IFRS for SMEs. According to Interviewee 4, the FRC:

> *… identified those areas in the IFRS for SMEs that either were not, I'd say, sufficiently sophisticated for what the UK was already used to so … we introduced some more sophistication, I'd say, into IFRS for SMEs.*

Adoption of IFRS for SMEs as issued by the IASB would have caused major changes to the UK economy and burdensome transition and implementation costs, without perceived benefits. For instance, entities with agreed bank loan covenants based on revalued demands would have had to renegotiate their bank facilities, with uncertain outcomes (Interviewee 5). Another drawback related to IFRS for SMEs was that harmonisation of SMEs' financial reporting was not deemed essential because entities were not aiming to access foreign capital and were not trying to secure loans from international banks. Therefore, no UK board members interviewed perceived this as an advantage and Interviewee 5 stated that "countries can't necessarily see, or couldn't see, a particular reason why it would want to harmonise accounting between countries for small companies".

In turn, although contradicting the IASB's perceived advantages of harmonisation of SMEs' financial reporting requirements, which was a fundamental feature prompting adoption of the standard, this supports the observation of previous studies that SMEs do not seek cross-border investors or regard foreign suppliers as users of their financial statements (Eierle and Haller 2009; EC 2010; Aboagye-Otchere and Agbeibor 2012; Bartůňková 2013). The next sub-section discusses another disadvantage of IFRS for SMEs.

5.4.2.2 IASB's due process and objectives of IFRS for SMEs

Similarly to national stakeholders, members of the UK NASB had various concerns about adopting IFRS for SMEs, one of which was the IASB's desire to update IFRS for SMEs only every three years. This was deemed to be infrequent compared with IFRS, which is updated yearly. According to Interviewee 1, "IFRS for SMEs is only reviewed on a three-yearly basis, which is just not quick enough for the environment we are operating in in the UK."

Members of the UK NASB flagged another issue relating to the IASB's due process which was use of IFRS to produce IFRS for SMEs (IASB 2007b). Board members were divided on whether a top-down approach was appropriate, since SMEs' needs were different from those of listed companies, and the IASB's political environment was turbulent because various parties were trying to lobby it to issue standards suitable or tailored to their needs (Interviewee 6). Interviewee 1 stated that "the IASB … are subject to political pressures which do not necessarily always give the best outcomes for all companies".

The UK NASB's concerns with regard to the IASB's due process have been observed in previous studies, which have highlighted that the IASB's purpose in developing IFRS for SMEs was not to create a different set of financial reporting standards, but to issue a light version of IFRS for use by SMEs (Ram and Newberry 2013, 2017). In a formal letter to the ASB and the BIS, Bush (2010), former member of the ASB's Urgent Issues Task Force, argued that the ASB's proposed changes based on IFRS for SMEs were legally and fatally flawed. He argued that proposed changes to the objectives of capital maintenance and creditor protection, associated with stewardship, conflicted with UK companies act because "the IASB has set the IFRS-SME on the basis that the objective is to provide information of a quality that is "useful to users". This is a very subjective, if not woolly, objective" (Bush 2010, p.15). In other words, IFRS for SMEs is focused on investors rather than stewardship. He further argued that:

> *"The project history of the IFRS-SME states that the IASB decided that it was not the purpose of the IFRS-SME to be used for assessing tax (i.e. making a distribution of profits at the pre tax level) or dividends (i.e. making a distribution of profits at the post tax level). That is contradictory to what Parliament has set out that accounts are for and which was re-decided as recently as 2006 with the introduction of the new Companies Act"* (Bush 2010, p.15).

However, other FRC members believed that in the UK it was "very clear that the objectives of accounting are not to produce profits for tax purposes, and that's important" (Interviewee 1).This led to the end of the decision-making process on the adoption of IFRS for SMEs because the perceived advantages "outweighed any concerns that one might have, or residual concerns one might have around the quality of IFRS for SMEs" (Interviewee 6). This in turn illustrate that IFRS for SMEs had flaws that influenced the FRC's decision to adopt it with no adjustments. However, UK NASB members held contradictory views with regard to the fact of the adoption. Two interviewees accepted the IASB's classification that the UK adopted IFRS for SMEs with major modifications, while the rest strongly denied adoption of the standard.

The next section further discusses the UK NASB's perceptions of the decision outcome.

5.5 UK NASB members' perceptions of the adoption of IFRS for SMEs

The remainder of this chapter draws on the theoretical framework introduced in Chapter 4 (Table 4.1), which includes the coercive dimensions of power, mimetic-pragmatic moral and cognitive legitimacy, and normative-pragmatic moral and cognitive legitimacy, as well as culture, history and authority, to examine how various entities and factors influenced UK NASB's decision-making processes. It focuses specifically on the influence of the coercive first and second dimensions of power, culture, history and authority, and pragmatic and cognitive legitimacy over NASBs, because analysis of the interviews and publicly available documents illustrate their importance and relevance, and provide enriched explanations of the data gathered for this study.

Although the IASB's website includes the UK as an adopter of IFRS for SMEs with major modifications (IFRS Foundation 2016f, 2016h), UK NASB members provided contradictory responses to the question of whether UK had adopted the standard. With the exception of two interviewees who stated that the UK had adopted IFRS for SMEs with major modifications, UK NASB members strongly denied this. According to Interviewee 4, "just to be clear, we don't apply the IFRS for SMEs in the UK", while Interviewee 5 stated that "there are a lot of differences. IFRS for SMEs was not adopted. 102 was adopted." Interestingly, when interviewees were asked whether the IASB's website classification of the UK as an adopter of IFRS for SMEs was accurate, they all agreed that the adoption fact was fairly presented:

> *Yeah, I think that is a fair description. I think we adopted it but we don't call it the IFRS for SMEs. We call it FRS 102 because, whilst many of the sections are the same or substantially the same, the differences that have been made are important* (Interviewee 4).

It is interesting that the word "adoption" triggered negative responses from UK NASB members, because their initial plan was to adopt the standard as issued by the IASB. Various factors may explain their negativity or reluctance to admit high similarities between FRS 102 and IFRS for SMEs, regardless of the fact that the vast majority of FRS 102 is based on IFRS for SMEs. For instance, all EU NASBs must comply with EC directives (EC 2016b). Since the EC has not so far mandated adoption of IFRS for SMEs, members of the UK NASB and other boards cannot claim compliance with it.

Another reason is that when the IASB issued the standard, it was aiming to help jurisdictions that did not have accounting standards or NASBs. In other words, the standard was designed to be used by developing rather than developed countries (Kaya and Koch 2015; Saucke 2015). The UK already had a well-established UK GAAP with various accounting options similar to IFRS, and adopting IFRS for SMEs seemed to be moving backward rather than forward owing to its unsophisticated accounting options unsuited to advanced economies such as the UK (ASB 2012a, 2012b; Interviewees 1, 4 and 5). In the case of developing countries and jurisdictions without NASBs, IFRS for SMEs would be a much easier solution than starting to develop accounting standards from scratch (Interviewee 5). Since NASBs seek to improve their legitimacy and illustrate that their processes are fair (Young 2003), UK NASB members were reluctant to admit that they had adopted the standard, because the IASB claimed that IFRS for SMEs was meant for developing jurisdictions and those without NASBs (Kaya and Koch 2015; Saucke 2015), which meant that adopting the standard might be viewed as downgrading the UK from a developed to a developing country. This was evident when a speaker at an ICAEW symposium entitled "Is the IFRS for SMEs good for SMEs?" used the UK as an example of a developing country that had adopted IFRS for SMEs (ICAEW, 2017). Saucke (2015, pp.280-281) further suggests that "the role of the UK Accounting Standards Board has changed fundamentally from one of developing and improving UK GAAP to one of implementing IFRS into UK GAAP". This in turn may explain interviewees' negative responses because adoption of IFRS for SMEs would reduce the UK NASB's power and legitimacy as the UK standard setter. Since UK NASB is not isolated, its decision-making process is influenced by various actors as discussed in more detail in the next section.

5.6 Coercive dimensions of power, the influence of various entities over the UK NASB's decision-making process

DiMaggio and Powell (1983) define coercive isomorphism as formal and informal pressures exercised by one organisation over another, through "force, persuasion or as invitation to join in collusion" (DiMaggio and Powell 1983, p.150). Miller (1994) suggests that NASBs are explicitly affected by the social influence of powerful institutions, indicating the importance of defining power. Allison (2018) suggests that power has various forms, including "force, persuasion, authority, coercion, and manipulation". Since different entities have varying levels of power and based on these studies, the proposed theoretical framework of this study defines the coercive first dimension of power as the capacity of an individual, entity or group of entities to influence, change, or have the potential to modify, NASBs' decision-making processes

(Lukes 1974; Powell and DiMaggio 1991; Allison 2018; Kwok and Sharp 2005). The framework defines the coercive second dimension of power as implicit or explicit influence of an individual, entity or group of entities to limit NASBs' agenda entry or discussion of a particular issue which, if discussed and resolved, might challenge or damage their preferences (political, technical, cultural or personal) in cases of decision and non-decision-making (Lukes 1974; Powell and DiMaggio 1991; Allison 2018; Kwok and Sharp 2005). The next sub-sections draw on this framework to deepen understanding of who, and how various actors including national stakeholders were able to change the UK NASB's decision-making process.

5.6.1 Coercive first dimension of power, the influence of stakeholders on UK NASB's decision-making process

Previous studies (e.g. Georgiou 2002; Jorissen et al. 2012) have found that stakeholders are more likely to participate in NASBs' decision-making if proposed changes or new regulations would impact negatively on their accounting treatments, or impose extra costs or unjustifiable accounting burdens. Georgiou (2002) further argues that stakeholders are less likely to participate in NASBs' decision-making process if they perceive that those NASBs will not meet their demands for change.

In the case of the UK NASB, it would seem that national stakeholders' often participate when the UK NASB requests feedback from the public. For instance, the UK NASB received 154 comment letters in 2009 and 293 in 2012 when public feedback was requested with regard to its proposed amendments to UK GAAP. According to Interviewee 1, each comment letter that the UK NASB receives:

> *has to be analysed, discussed … you might go back out to consultation if you have made a change which hasn't been consulted on, which means comments are carefully read, considered and analysed. In other words, stakeholders' responses cause board members to think in more detail how the proposed changes would affect them. However, if stakeholders would try to change already established concepts, board members would not consider their arguments. There are some people who have basic conceptual disagreements, and once you have established what the concepts are, you don't then accept recommendations that say you should change your concept completely*.

In 2009 the ASB published an ED that proposed adoption of IFRS for SMEs with no modification (ASB 2009), and national stakeholders sent in comment letters. The participants included listed entities, professional accounting bodies (e.g. ICAEW and ACCA), not-for-profit organisations, housing associations, co-operatives, credit unions, local banks and other entities. The proposed adoption of IFRS for SMEs as issued by the IASB "received major pushback" (Interviewee 5) because it would cause fundamental changes as a result of the limited options available, and because the basis for distinguishing between entities was to be public accountability rather than size (Interviewees 4, 5 and 11). This would have caused many entities to have to apply EU-adopted IFRS, rather than UK GAAP (ASB 2012b). However, the proposed distinction was supported by a few large public companies because it would allow them to avoid the application of IFRS.

Despite the major concerns expressed by stakeholders, the changes proposed in the ASB's 2010 ED were minimal because it believed that the IFRS for SMEs standard should be adopted as issued by the IASB (ASB 2010a). This illustrates that, although stakeholders' responses were carefully considered and analysed, other factors influenced the decision not to introduce major changes in 2010. Even though the ASB issued another ED in 2012, which introduced major changes to the proposed standard, this can be explained by the influence of board members rather than stakeholders because if the ASB had intended to make these changes to satisfy its stakeholders in the first place, it would have done so in 2010, rather than waiting for two years before it ceased to exist. This is discussed further in the next sub-section.

5.6.2 Coercive second dimension of power, the influence of board members on UK NASB's decision-making process

Previous studies have illustrated that different board members possess various levels of power that allow them to influence and alter boards' agenda entry, decision-making processes and final outcomes (e.g. Ram 2012; Ram and Newberry 2017). In the case of the ASB, it is important to note that Ian Mackintosh, former chair of the ASB, left office on 1 November 2010, and Roger Marshall has since been chair of the ASB and of the FRC (FRC 2010). The new chair had been a senior partner at PwC, where he had been responsible for auditing FTSE 100 companies (Financial Times Stock Exchange 100 Index). He was a former member of the ASB between 2001 and 2007, indicating that his background was mainly in large and listed companies, whereas the previous chair was originally from New Zealand, had chaired the Australian Accounting Standards Board, had been financial manager at the World Bank in South Asia, and had participated in accounting standard setting for more than 30 years, with extensive public sector experience (Integrated Reporting no date; ISAR 2015; FRC 2010). Therefore, the background and former experience of the previous chair was very different. Ian Mackintosh had participated in standard setting in more than one jurisdiction, and had been involved with the World Bank, which was a strong supporter of the IASB's accounting standards (e.g. Mir and Rahaman 2005; Ashraf and Ghani 2005; Annisette 2004; Albu et al.

2011), whereas Roger Marshall had focused mainly on large and listed companies in his role at PwC. This meant that the transition from Ian Mackintosh to Roger Marshall would cause major changes to the board's decisions owing to the significant differences in their background and experience:

> *It was the transition from Ian Mackintosh to Roger … iMac was very much in favour, and you have to bear in mind his New Zealand/Australian background, and he worked for the World Bank for a long time. Very much international and, coming from the World Bank, very much oriented towards SMEs which need World Bank help, countries that need World Bank help, and therefore wanting to have a system of accounting which helps accountability. Then Roger comes, much more as an ex-PwC partner and being on boards of big insurance groups, from the other end* (Interviewee 12).

The last changes published by the ASB during the final month of the Mackintosh era in October 2010, a month before Marshall was appointed chair, highlighted its desire to adopt IFRS for SMEs with as little modification as possible (ASB 2010a). At that time, it only introduced a few changes to the proposed adoption plan for IFRS for SMES as issued by the IASB (listed in Table 5.1), disregarding both the comment letters it had received and Timothy Bush's (2010) letter which had highlighted the legal flaws in the ASB's adoption plan. As Interviewee 4 commented:

> *There was support for basing it on the IFRS for SMEs, and then what came out in the consultation were these issues that actually, yeah, the IFRS for SMEs is a very good start for private companies but to identify these areas – indeed I was one of those who sort of raised concerns and looked for ways of improving it, and that's what the FRC has done* (Interviewee 4).

After Marshall became chair of the ASB and FRC, major changes were introduced to the adoption plan, including eliminating the distinction based on public accountability, and reintroducing prohibited accounting treatments such as carrying forward certain development costs, capitalisation of borrowing costs and revaluation of intangible and tangible assets (ASB 2012b):

> *Because the decision was taken before my time to use IFRS for SMEs as the basis for 102. But it was also probably decided during my time that we would make quite a lot of changes to IFRS for SMEs, whilst the original intention has been to try and use it almost unaltered, so it was during my time that we decided, as I say, to make quite a lot of changes* (Interviewee 5).

Interviewee 12 further explained the influence of the chair's perceptions of IFRS for SMEs on the board's decision-making process:

> *It comes back to when Paul Pacter wrote the IFRS for SMEs: he tried to make it as simple as possible, and therefore have not that many choices in there to make it a rule book. Then, as the UK always wanted to revalue, then Roger almost argued that UK accountants were too developed to be brought down to this simple cookbook level, and therefore all the nicer, better options that are in IFRS shouldn't be cut out of the IFRS for SMEs, because it couldn't be argued that accountants in the UK were not able to apply these more sophisticated options ... Therefore, in the process of developing the accounting for smaller entities in the UK, I sense that these arguments that all accountants are sophisticated and therefore don't have to be protected from options or whatever, brought back in changes which makes the UK-derivative of the IFRS for SMEs more like UK GAAP on the one hand, and more like IFRS than the real IASB IFRS for SMEs.*

Therefore, the needs of stakeholders appear to have been met not simply through participation in the decision-making process, but through support from powerful board members. The presence and influence of powerful entities – in this case the former and current chairs – on the adoption decision but such domination was not documented in publicly available documents. However, stakeholders' lack of participation would have reduced the potential to influence the board's decision because any drawbacks not picked up on or considered by members of the NASB would not have been flagged or considered in the decision-making process. Thus, their participation was crucial in bringing these issues to the board's attention.

Although, to some extent, stakeholders and powerful board members influenced the UK NASB, they were not the only actors involved in the process. For instance, the UK government also participated in the decision-making process, as discussed in the next sub-section.

5.6.3 Coercive first dimension of power, the influence of the UK government on UK NASB's decision-making process

Although the UK NASB's responsibilities and authority are established by the UK government and documented by the Companies Acts, including those of 2004 and 2006 (FRC no date), the government does not interfere in the decision-making process because it has surrendered its legislative power over UK accounting standard setting to the NASB:

> *FRC decides what UK accounting rules should apply under delegated authority from ultimately the Treasury, so the government as such is not consulted. The government doesn't have an immediate right of veto and nor does the government have to actively approve any particular accounting standard* (Interviewee 6).

Nonetheless, its association, involvement and influence on the UK NASB's decision-making process is not entirely clear. For instance, in 2004, when the ASB consulted on its plan to converge UK GAAP with IFRS, the DTI issued a regulatory impact assessment that proposed changes to the UK accounting regulations (DTI 2004; ASB 2004). If the government were completely segregated from the NASB's decision-making process, why would it suggest changes to the regulations, request feedback from national stakeholders and allocate further resources to analyse the situation if the sole decision maker were the UK NASB?

> *The Department for Trade and Industry did a consultation on IFRS and convergence with IFRS back in 2004, so the UK government was broadly on board with the direction of travel to take a global internationalist approach. We would liaise and discuss with the government all the way through* (Interviewee 11).

Interviewee 4 explained that the UK government's role and its relationship with its NASB is informal and indirect because:

> *The government doesn't really have a direct role in the decision making, in so much as the application of accounting standards is effectively – and I say effectively because it's not a very formal process – effectively delegated to the FRC. We're identified in law as an accounting standard setter … but there is an indirect role there in so much as if the original IFRS for SMEs conflicts with UK law.*

When the ASB first introduced its plan to adopt IFRS for SMEs as issued by the IASB, it did not consider the consequences of EC directives and UK company law (ASB 2009, 2010b). The UK NASB cannot issue any regulation that may conflict with UK company law because such compliance is embedded in its role as an NASB (FRC no date; Interviewees 1 and 4). In order for the UK government to ensure that the UK NASB is creating regulations in accordance with company law, observers from BIS and the Treasury have the right to attend board meetings, and occasionally do so (Interviewees 1 and 4). According to Interviewee 1:

> *We used to on occasions have an observer at board meetings from what was then BIS… It's a liaison process to make sure that everyone is thinking in the same direction. The UK government has always taken the view that it's the standard setting bodies that know more about accounting than they do … The main reason they were there was, at the same time as we were producing IFRS for SMEs, they were amending the Companies Act, so they obviously needed to be liaising to make sure that we didn't do something in the standards that was against company law … Because obviously we draft the accounting standards in accordance with company law, in the framework of company law, and therefore we couldn't produce standards that actually said we are just going to ignore what company law said. That would be a slightly suicidal thing to do, I think* (Interviewee 1).

Interestingly, board members provided mixed accounts of the extent of national government involvement and influence in the decision-making process. Interviewees 5 and 6 denied direct national government participation; nor did they consider that it was indirectly involved, unlike the other participants. One explanation is that if the government were seen to be actively involved in the UK NASB's decision-making process, this might influence the latter's independence and authority in issuing accounting regulations, which in turn might conflict with company law. However, the government's indirect involvement with the UK NASB meant that it was also able to influence the issuance of company law because it was able to discuss and demonstrate why certain changes were needed:

> *We tried very hard to get amendments made, and we did get some amendments made. There were one or two areas where we had to accept that the law told us to do something we didn't particularly think was right, and there we had to write the standards to deal with that … The main issue to remember is that the way the UK approaches tax is to create taxable profits which are not necessarily the same as accounting profits. To reach your taxable profits you make amendments to your accounting profits. There are some areas where they rely on the accounting and one of the particular areas in which they rely on accounting is in the area of foreign exchange. If you are looking at the way in which you tax profits which are generated in a foreign currency, there is a presumption that you take into account the way in which its been accounted for. That can give you unrealised gains or losses. For example, if you are looking at long term liability. Particularly when you get into the area of derivatives, hedging, there was some real concern from the Treasury that they didn't lose their ability to tax in the way they have been doing, so we didn't change anything to reflect what the taxable authorities wanted* (Interviewee 1).

Interviewee 11 further explained and provided an example of the government's relationship with its NASB:

> *Many companies reported extraordinary items every year, and there seemed to be some abuse of that, and in its early years the ASB produced a standard called FRS 3 - Reporting Financial Performance – that didn't totally ban extraordinary items but made it really hard for a company to be able to do it. You could say, was that incompatible with the law? I think the UK government agreed that it was being not applied properly … some companies I should say - as a means of reporting things that shouldn't have been reported as extraordinary, so in that sense it was… It was a flexible relationship, if I can put it that way*.

Therefore, in the case of the UK, although the government was indirectly involved in the decision-making process to ensure that the NASB did not create standards that conflicted with company law, it was also influenced by the NASB, indicating a flexible relationship between the two. Since the UK NASB is bound by the EC's directives, the latter is another actor that influenced the former's decision-making process. This is discussed further in the next sub-section.

5.6.4 Coercive first dimension of power, the influence of the EC's directives on UK NASB's decision-making process

In theory, each jurisdiction has absolute power over its regulations and laws, but the reality is otherwise in the EU. The EC directives are compulsory, and each jurisdiction must comply with every directive and cannot issue any laws or regulations that contradict them (EC 2016b). Therefore, no EU jurisdiction has absolute power over its national regulations. As a result, the UK NASB is bound to comply with and issue accounting regulations in accordance with company law and EC directives. According to the ASB (2010a), changes to the proposed IFRS for SMEs were necessary to ensure compliance with EC directives, including changes to extraordinary items, treatment of associates and joint ventures, and negative goodwill. In a letter to the EC, the ASB indicated that it was closely monitoring EFRAG's comparability study and would modify its adoption plan if necessary (ASB 2010b; EFRAG 2010b). Interestingly, all UK NASB members interviewed, without exception, stated that EC directives had mandated changes to the proposed adoption plan for IFRS for SMEs (Interviewees 1, 4, 5, 6, and 11):

> *The original IFRS for SMEs conflicts with UK law. We've had to amend for that reason. Bear in mind UK company law in this area is derived directly from the EU accounting directives, so effectively it's EU law on company reporting. And so if there is a clash, then there is an issue* (Interviewee 4).

Interviewee 5 further explained why it was infeasible to adopt IFRS for SMEs as issued by the IASB:

> *There's a Fourth Directive we have to comply with; and there were a number of differences between IFRS for SMEs and the Fourth Directive which we had, where we had to modify IFRS for SMEs … there were a number of issues. For example, I think amortising goodwill is one example* (Interviewee 5).

The changes required by the EC (2010) that were flagged by the EFRAG (2010b) study were deemed minimal, enabling the ASB to comply with them in order to adopt the standard based on firm legal grounds. However, the EC then updated the Fourth Directive (Directive 2013/34/EU), which mandated more changes to SMEs' financial reporting (EC 2013). These included reducing financial reporting disclosure requirements and making more entities eligible to comply with FRS 102 rather than EU-adopted IFRS. Even though the imposed changes contradicted the FRC's financial reporting vision, it had to comply with and implement the required changes (FRC 2014a):

> *"The most significant change arising from the new Accounting directive relates to the small companies regime, where accounting standards may not specify disclosure requirements in addition to the limited number of disclosures set out in the new Accounting directive … The Financial Reporting Standard applicable in the UK and Republic of Ireland, it would not have proposed such a reduction in mandatory disclosures if it were not required to"* (FRC 2014a, p.3).

Interviewee 5 further explained the influence of the EC directive on UK accounting regulations, and provided an example of where the new directives conflicted with FRC's perceptions of micro-entities' financial reporting requirements:

> *It's fair to say that the UK didn't agree with the micro-entity regime brought in because it effectively banned any requirement for disclosures other than a very restrictive number. There's about six disclosure requirements and that's all that you're allowed to require … For example, you couldn't require a disclosure of derivatives, so there was nothing we could do about it because it was a maximum harmonisation regulation … but we would have required more disclosures, even for micro-entities, for certain issues like derivatives* (Interviewee 5).

In this case, the EC was very powerful and had vast capacity to mandate changes to UK accounting standards and regulations applicable to SMEs and micro-entities, even if the UK NASB disagreed or believed were unsuitable for its stakeholders. When participants hypothetically were asked what the UK decision or outcome would have been if the EC had mandated adoption of the standard with no modification, interestingly, no one suggested that the change would have been opposed or denied. Some dodged the question by arguing that this scenario would never have happened owing to political factors imposed on the EC:

> *The Commission would have had to have brought in a new directive. The Commission can't just mandate it; it would have had to be a new directive. And the question is, would they have ever got support from government because, as I say, it would have created a huge cost in a number of countries? … They would have had to approve it, yes. Well, it would have been that the European Council would have had to approve it, and the European Parliament. There's a big political process, as you know, and yeah, either a directive or a regulation* (Interviewee 5).

Others admitted that the UK would have had to comply and adopt it, regardless of the perceived assumption of IFRS for SMEs:

> *If there had been external pressure on countries to change, so if Brussels had said everyone has to apply IFRS for SMEs … There would have been political pressure on every country in Europe to change their standards* (Interviewee 1).

However, despite the influential actors previously discussed, a few UK NASB participants believed that the UK NASB is solely responsible for issuing UK accounting standards and regulations because such influence may hinder its authority and independence over national accounting standard setting. This issue is discussed in more detail in the next section.

5.7 Influence of UK NASB's authority on the adoption decision of IFRS for SMEs, and vice versa

Previous studies have argued that NASBs' authoritative power influence their decision-making processes in issuing or accepting accounting standards (e.g. Hail et al. 2010; Zeff 2010; Cox 2014; Krishnan 2016; Van Mourik and Walton 2018). Based on these studies, the proposed theoretical framework of this study defines NASBs' authority as their perceived legislative power and capacity to modify and issue accounting regulations, and examines how loss of authority influenced and were influenced by IFRS for SMEs adoption.

According to the FRC (no date, p.1), it is solely responsible for issuing UK accounting standards and is "the independent UK regulator". However, in the EU, NASBs' legislative powers vary significantly. For example, the FRC has much greater legislative power than the German NASB, the ASCG, because the latter is not responsible for issuing accounting regulations, which is the responsibility of an advisory body to the German Federal Ministry of Justice (Federal Ministry of Justice 2011). In other words, the UK government's approval of the FRC provided it with authoritative power to adopt IFRS for SMEs.

When the EC mandated the adoption of IFRS, NASBs lost their authority over issuing accounting standards for group financial statements of listed companies to the IASB. Thus, NASBs currently only have legislative power in the arena of their SMEs (Napier 2010). If IFRS for SMEs were adopted, it would eliminate their remaining legislative power:

> *If you have a jurisdiction that has not had a standard setter, it's easy to say, "Well, buy it off the shelf in London." If you had a standard setter, that standard setter has to redefine its own role if the product outcome is not its own product but the product outcome of the IASB. Then your own reason for your existence is reduced, but the word "reduced" is already loaded, to make sure that you play part of the due process. The final product is a product of compromise, where in the IASB, the UK voice is only one amongst others. It's like everything in politics* (Interviewee 12).

Previous studies have shown that governments and NASBs are reluctant to surrender their legislative power to another entity such as the IASB (Hail et al. 2010; Zeff 2010; Cox 2014; Krishnan 2016). However, if they want to adopt the IASB accounting standards, in order to protect their authority, they may establish mechanisms to shield and protect their own interests. The FRC is no different from any other NASB or governmental entity in its desire to protect its authority and legislative power. When the FRC took over the ASB, it was an independent standard setter; however, its plan to adopt IFRS for SMEs was seen as one reason for its loss of authority. According to Interviewee 11:

> [sighs] *Yes, but there are other factors at play as I mentioned earlier … They were independent, and I think in moving the standards setter from the Accounting Standards Board to the Financial Reporting Council… personal view, I think that has impacted on independence. Yes, I do think that the adoption of the IFRS for SMEs as modified had an impact. It wasn't the only one.*

The FRC's modifications or carve-outs and frequent amendments were another approach to protecting its authority, similar to the EC's behaviour with regard to IFRS. When the EC adopted IFRS, it made amendments that included changes to IAS 39 and IFRS 9 (ICAEW 2014). The FRC carved out a classification based on public accountability, and reintroduced options prohibited by the IASB (ASB 2012b):

> *There was a view at the FRC that basically its standard-setting functions could disappear. That statement would no longer be relevant because basically the UK would be tied to IFRS and basically rule entities. I think the way that has played out has been quite the opposite. I think, given the frequency of amendments, I think it reinvigorated the role of the FRC as the, you know, UK accounting standard setter, because they've had to really make all these changes. So I think the intention was, yes, that it would sort of disappear, but the reality has been really the opposite … Even though there was this almost ideological decision to move towards the IASB and IFRS, I think the market UK constituent has basically said "no", and so de facto the Board has been given another life to continue to set UK standards, because given the number of amendments, it's pretty clear that there is a role for UK standard setters* (Interviewee 15).

Therefore, although adoption of the standard was perceived as ending the FRC's authority or reducing it simply to mediating between national stakeholders and the IASB, the process actually resurrected it and provided more legitimacy for its decision-making and role as the UK standard setter.

The next section discusses the UK's culture and history which also influenced the adoption of IFRS for SMEs.

5.8 Influence of UK history and culture on the IASB and adoption of IFRS for SMEs

Previous studies have illustrated that historical and cultural accounting traditions influence NASBs' decision-making processes (e.g. Mir and Rahaman 2005; Ramanna 2013; Degos et al. 2018). Based on the previous literature, the proposed theoretical framework of this study defines accounting history and culture as governments' and NASBs' acceptance of accounting standards if it shares similar characteristics with national accounting standards as developed over time; or have a high level of proximity with external stakeholders' beliefs and preferences (e.g. Mir and Rahaman 2005; Albu et al. 2011; Ramanna 2013; Hoffmann and Zülch 2014).

In 1969, the ASSC was established by the ICAEW as a result of a series of scandals (Chiapello and Medjad 2009; Napier 2010; Rutherford 2007). The ASSC's purpose was to issue authoritative statements in order to reduce "the areas of difference and variety in accounting practice" (Napier 2010). In 1975, the ASSC was renamed the ASC (Napier 2010), and shortly afterwards the six UK professional bodies joined it and operated collectively to issue accounting standards (Rutherford 2007; ICAEW 2018b). In 1990, the ASC was redefined and the ASB was created and modelled on the US FASB in order to achieve similar results, including the board's independence from the accounting profession (Chiapello and Medjad 2009). Sir David Tweedie was ASB chair, and then became chair of the IASB when that was established (IASC 2000; Napier 2010). According to Napier (2010), during Tweedie's time as ASB chair, he highlighted many flaws in its financial reporting approach and suggested how they might be resolved.

Many of the ASB's early FRSs were influenced by Tweedie's ideas, including the prominence of accounting for substance over form. Psaros and Trotman (2004) define substance over form as accounting standards written in general wording, principles-based, providing guidance rather than very direct requirements or standards that are rule-based. Allan Cook, the ASB's first technical director, was also secretary of the IASC (Napier 2010). Therefore, the UK NASB and the IASB had common staff members and chairs:

> *The IASB is based in London. There are a lot of people who work for the IASB who have worked for the FRC and vice versa. There is a good relationship between the two, so there is open communication and they understood what we were doing all the way through* (Interviewee 1).

These similarities and proximity are not simply a result of location, but rather of shared ideas and culture. The IASB's headquarters is located in London, and it is influenced by its external environment (e.g. Ram 2012; Ram and Newberry 2013, 2017; Warren 2017). This explains Collis et al.'s (2017) argument that IFRS for SMEs is similar to the former UK GAAP.

A fundamental accounting requirement in the UK, introduced in the 1948 Companies Act, determined that financial reporting should provide a "true and fair view" of companies' performance and financial position (HMSO 1965; Parker 1989; Nobes 1993; Nobes and Parker

2012; FRC 2014b). Since then, the phrase “true and fair view” has been present in many of the UK’s national accounting standards, including the FRC’s current six collective financial reporting standards (Parker 1989; Nobes 1993; Nobes and Parker 2012; FRC 2014b, 2018), so it has a longstanding history in the UK’s accounting culture:

> *When Great Britain joined the EU in ’73, they were demanding a change to the accounting requirements that were under discussion at that time … The UK delegation said, “We want the provision in there that says that financial statements ought to give a true and fair view of the companies’ situation”* (Interviewee 7).

According to the FRC (2014b, p.3), adoption of IFRS in the UK did not hinder the fundamental concept of the “true and fair view” because “fair presentation under IFRS is equivalent to a true and fair view”. The FRC regards the true and fair view as something that cannot be added to accounting standards; rather it is the whole essence of the standards that reflect economic reality. Since IFRS and UK accounting standards are in essence similar, this also illustrates the IASB’s proximity to the UK’s historical and cultural accounting regulations. [7]

Many interviewees said that one of the main historical and cultural distinctions of UK accounting is the use of current value, which was restricted under IFRS for SMEs since, for instance, the standard prohibited revaluation of long-term assets. The FRC had to reintroduce these options in order to preserve the long history and culture of the UK accounting tradition:

> *So back in 2012, the FRC took the IFRS for SMEs and then considered the previous history of the UK’s accounting and thought. Well… IFRS for SMEs was not quite fit for purpose in the UK, that previous UK GAAP accounting options, such as the revaluation of fixed assets, such as the capitalisation of interest, that these should be retained. But I think mainly there was support for the notion that an IFRS-based solution that was proportionate to the needs of non-listed companies and the dialogue they’re having with their users of accounts was the right way forward. But to ensure that where the standard could be improved or expanded on to reflect kind of UK-specific historic experience of accounting and expectations, then it was the way forward* (Interviewee 4).

This indicates that IFRS for SMEs is not entirely proximate to the UK accounting tradition. Interviewee 1 further explained how the standard omitted accounting options traditionally accepted in the UK:

[7] Although the FRC claims that adoption of IFRS did not hinder the fundamental concept of the “true and fair view” because “fair presentation under IFRS is equivalent to a true and fair view”, this study cannot confirm such compliance. In order to do so, it would be necessary to evaluate the true and fair view before and after the introduction of IFRS, which is beyond the scope of this study and might be investigated in future research.

It is a cultural factor. I think it's, for example, the concept of revaluation. It has always been a tendency in the UK to move towards fair values where they can, in a way which is much more extreme than in other parts of Europe for example. So we were the first ones to fair value investment properties; we were very keen on making sure we had fair values for financial instruments and also allowing companies to re-value properties and other fixed assets if they wanted to do so.

Another reason for the FRC's modification of IFRS for SMEs was its perceived legitimacy. An NASB's legitimacy, like any other entity, depends on evaluations and perceptions of its society. Larson and Herz (2013) highlight that any entity that seeks to survive, succeed and obtain legitimacy must be approved and justified by its society. For instance, the IASC/IASB accounting standards are not mandatory, but the more jurisdictions adopt its standards, the more legitimacy it acquires. According to Interviewee 1:

The IASB is in a difficult position, because it has no power; it relies on other people adopting what it does … I mean, the IASB would have liked us just to have adopted IFRS for SMEs. It would have given them a huge amount of credibility … But I think, obviously, they would have preferred us to have taken IFRS for SMEs and just picked it up and run with it.

In order for an NASB to acquire legitimacy, the procedure that it uses to create accounting standards has to be well-developed and transparent, and must incorporate its stakeholders and their perceptions into the decision-making process and final outcome (Durocher and Fortin 2010; Bamber and McMeeking 2016). An NASB's legitimacy provides its standards with a fundamental grounding so that its stakeholders will regard the standards as appropriate and worth complying with (Burlaud and Colasse 2011; Camfferman and Zeff 2018).

The FRC and its predecessor have often consulted on new regulations and amendments to current standards. This indicates that it often incorporates stakeholders into the decision-making process to satisfy their demands, which increases its pragmatic legitimacy. In the case of IFRS for SMEs, the UK NASB consulted on each of the proposed changes since the ASB decided to converge with IFRS. As related by many interviewees, some changes, such as the use of current value including revaluation of assets, were reintroduced by the FRC in response to calls by stakeholders and to maintain the UK's historical and cultural accounting traditions (Interviewees 1, 4, 5 and 11):

Well, it's partly history. You know, where the accounting has come from. It's partly who sets the standards, so in Germany it's the Ministry of Justice which sets domestic accounting standards, and the German Accounting Standards Board is only responsible for consolidation accounting, for example. And then the question is, is the

> *local accounting standard used directly for preparing tax computations? In the UK there's a history of there being differences* (Interviewee 5).

Interviewee 1 further explained the extent of the influence of the UK's accounting history and culture on national accounting regulations:

> *If you do it by law, you lose flexibility. You can't change the law every time you want to change a standard; it just becomes ridiculous … This is British arrogance I am afraid, the whole notion of true value developed in the UK. And it's something which UK accountants feel very strongly about. And I think if you look at some of the options that were taken in deciding how to approach IFRS – sorry how to approach IFRS for SMEs – so FRS 102, when there was a choice that had to be made, the choice was driven by the way in which British accountants have always done things* (Interviewee 1).

Some of the FRC's changes to IFRS for SMEs were made to preserve historical and cultural features of the UK's accounting system and to satisfy the needs of its stakeholders. The latter increased the FRC's pragmatic legitimacy as a standard setter, which had always been at the forefront of accounting standard setting, leading to increased cognitive legitimacy as a result of its long history of setting appropriate accounting standards:

> *We were always at the forefront of standard setting. Even amongst private companies, there's always been fairly sophisticated accounting* (Interviewee 4).

Another historical and cultural factor that influenced the UK NASB's adoption of IFRS for SMEs was the UK's orientation toward the Anglo-Saxon model, unlike other EU jurisdictions which are oriented toward the Continental European model (Nobes 1998; Burlaud and Colasse 2011; Hellmann et al. 2013). Degos et al. (2018) define the Anglo-Saxon model as a system of accounting standards that provide investors with credible and useful information, including information with regard to financial returns, which are not linked to the tax system. The UK's alignment with the Anglo-Saxon model makes it proximate to the US, which also uses an Anglo-Saxon model (Nobes 1998; Burlaud and Colasse 2011; Hellmann et al. 2013). One of the main criticisms of the IASC/IASB's accounting standards is that they are more tailored or proximate to Anglo-Saxon countries than to the rest of the world (Nobes 1998; Mir and Rahaman 2005; Hail et al. 2010). According to Burlaud and Colasse (2011), the vast majority of IASB members have been educated, trained and gained experience in Anglo-Saxon countries, which indicates high proximity to the culture and history of the UK and US. For example, Paul Pacter, who wrote the IFRS for SMEs, was born, educated, trained and gained experience in the US (Christodolou 2010). In other words, Pacter's Anglo-Saxon knowledge and culture made it easier for the UK to adopt IFRS for SMEs owing to shared cultural and historical preferences:

> *If the UK is a kind of Anglo-Saxon communication to investors, Germany was probably more traditional creditor protection* (Interviewee 11).

> *Everybody was understanding that not all the member states were in favour of introducing IFRS for SMEs in Europe, and the main division was between somehow the Anglo-Saxon world – the UK, or I think the UK endorsed IFRS for SMEs in their legislation quite soon… But the majority of member states, Italy for sure, France for sure, Germany also, they were not so happy to use for SMEs, the SMEs discounting set proposed by IASB* (Interviewee 12).

Thus, the UK's history and culture influenced board members' preferences and national stakeholders' demands for changes, which led to major modifications to the adopted IFRS for SMEs. The geographical, cultural and historical proximity of the IASB with the UK meant that IFRS for SMEs was to some extent tailored to the needs of national stakeholders, which made adoption of the standard easier and more possible in the UK.

5.9 Conclusion

This chapter has discussed the UK NASB's decision-making process with regard to the adoption of IFRS for SMEs. It has highlighted the perceived advantages and disadvantages of the standard, as well as visible environmental factors (foreground) such as the EC, UK NASB chair, national governments and stakeholders, and unseen environmental factors (background) including authority, history and culture that influenced the adoption decision. The evidence presented in this chapter has shown that the ASB's adoption plan and the FRC's execution of it differed as a result of many interrelated factors. Therefore, adoption of IFRS for SMEs and the major changes introduced were not related to a single factor nor based on simple cost–benefit analyses, but rather on multiple interrelated factors. In other words, the assumption that accounting is purely technical or merely bookkeeping is untrue; rather, the process is enormously complex and unseen environmental (background) factors such as national pride played a role in the decision to adopt IFRS for SMEs in the UK.

The next chapter discusses EFRAG's decision-making process, jurisdictions that rejected adoption of the standard, and influential factors behind their decisions.

Chapter 6: NASBs' Decision-Making Processes – The Case of EFRAG and EU Non-Adopters of IFRS for SMEs

6.1 Introduction

This chapter discusses EFRAG's process for conducting a comparability study between the standard, and the EC directives to which the EC referred in its decision not to mandate the standard in the EU. The chapter also examines how and why the German, Italian and Dutch NASBs rejected adoption of IFRS for SMEs, the influence of the standard's advantages and disadvantages on their rejection, various entities' involvement, and to what extent they influenced the NASBs' final decisions. In doing so, this chapter addresses research questions relating to EFRAG and jurisdictions that rejected the standard, their decision-making processes, how the standard's perceived advantages and disadvantages influenced NASBs' final decisions, and the extent to which visible and unseen environmental factors influenced NASBs' decision-making processes in the case of IFRS for SMEs.

EFRAG is not a board member of the EC, but its responsibilities include providing advice and support for the EC in various matters such as amendments to IFRS (EC 2016a), as well as participating in the IASB's standard-setting process (Deloitte Touche Tohmatsu 2014). In 2009, the EC mandated it to conduct a comparison study between IFRS for SMEs and the Fourth and Seventh EC Directives, with the aim of highlighting incompatibilities between them (EFRAG 2010a). Therefore, EFRAG's role is deemed to have been significant, so former members of its SMEs working group, senior technical managers, project managers and research directors were interviewed for this study. All EFRAG interviewees, with the exception of Interviewee 3 with a British background, were from jurisdictions classified as part of Continental Europe, including the Netherlands, Italy and Germany. Their responses are discussed in this chapter, together with those of interviewees from NASBs that rejected adoption of IFRS for SMEs, because they share similar characteristics such as accounting traditions.

This chapter is organised as follows. Section 6.2 sets out the decision-making process adopted by EFRAG, the OIC, DASB and ASCG with regard to IFRS for SMEs. Section 6.3 discusses the advantages and disadvantages of the standard, and how it influenced NASBs' decision-making process. Sections 6.4 to 6.6 draw on theoretical framework introduced in Chapter 4 (Table 4.1) to analyse various factors that influenced the EU NASBs' decision with regard to IFRS for SMEs. Section 6.4 focuses on various entities involved in the EU NASBs' adoption decision, and how they influenced the final outcome. Section 6.5 explains how the authority of these governments and EU NASBs was perceived as a reason for rejecting the standard in order to protect their legislative power. Section 6.6 explains the historical, cultural and accounting traditions of EU jurisdictions, as well as their proximity to the Continental European accounting model, which were seen as additional motives for rejecting IFRS for SMEs. Finally, Section 6.7 summarises and provides conclusions on the topics discussed in this chapter. The next section conducts a detailed discussion of EFRAG's compatibility study and NASBs' decision-making processes in rejecting the standard.

6.2 EFRAG's and NASBs' decision-making processes in rejecting IFRS for SMEs

6.2.1 EFRAG's decision-making relating to its comparison study between IFRS for SMEs and the Fourth and Seventh EC Directives

In 2009, EFRAG, in its advisory role, was mandated by the EC to conduct a comparison study between IFRS for SMEs and the EC's Fourth and Seventh Directives that were available in 2009 (EFRAG 2010a). The EC's Fourth Council Directive 78/660/EEC of 25 July 1978, based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies including limited liability companies, and the Seventh Council Directive 83/349/EEC of 13 June 1983, based on Article 54 (3) (g) of the Treaty on consolidated accounts, were updated in 2006 in order to incorporate EU-adopted IFRS (EC 2006). Therefore, these directives often refer to IFRS standards with regard to various accounting treatments rather than to IFRS for SMEs, since the latter is not endorsed in the EU. The EU has around 24 million companies "of which approximately 80% are limited liability companies, while around 98-99% of limited liability companies are SMEs" (EC 2006), so the EC's Fourth Directive regulates the vast majority of EU SMEs. In order to satisfy the EC's mandated comparability study, EFRAG assessed and compared each paragraph of IFRS for SMEs with the Fourth and Seventh Directives. It highlighted each paragraph of the standard in either dark green for not incompatible, light green for incompatible depending on interpretation of the directives, yellow for not assessed, or red for incompatible (EFRAG 2010b). EFRAG's (2010a, 2010b) analysis indicated that the vast majority of IFRS for SMEs was compatible with the EC directives, with the exception of the following issues:

- IFRS for SMEs prohibited classification of items as "extraordinary items", whereas the EC directives permitted such classification. However, the EC did not specify which items should be considered as extraordinary items, so incompatibility would rarely arise in practice and this issue could be ignored. EFRAG had to flag up this issue because it was specifically requested to raise any incompatibilities, regardless of how often they might occur.

- IFRS for SMEs provided entities with an option to use IAS 39 Financial Instruments: Recognition and Measurement. However, it did not specify which version of IAS 39 should be applied. Therefore, EFRAG was unable to consider whether the standard's requirements with regard to financial instruments were compatible with the EC directives.
- In the case of associates' and jointly controlled entities' consolidated and non-separate financial statements, IFRS for SMEs mandated the use of a fair value model to measure investments if a published price quotation was available; whereas the EC directives required the use of an equity method for associates' consolidated financial statements, and either an equity method or a pro rata consolidation for controlled entities' statements. For non-separate financial statements, the EC directives referred to IFRS as endorsed on 5 September 2006, which would generally not permit associates and jointly-controlled entities to use a fair value model.
- In the case of negative goodwill, IFRS for SMEs required immediate recognition in profit and loss, whereas the EC directives would not permit such a treatment if, for instance, expected future results were deemed to be unfavourable.
- IFRS for SMEs banned the reversal of impaired goodwill, whereas the EC directives permitted it if the reason for it had perished. EFRAG argued that in certain cases, such as goodwill generated internally, impairment losses should not be reversed; however, it might be evident in some cases that goodwill had not been internally generated, and in such cases the EC directives permitted its reversal.
- IFRS for SMEs estimated the useful life of goodwill as 10 years if an entity was unable to determine it more accurately. If, for example, an entity assumed that the useful life of goodwill would be between two and 11 years, the standard would require the use of 10 years, whereas the EC directives would require the use of five years for the same example.

Based on EFRAG's study and discussions with stakeholders and EU governments, the EC (2010, 2011) argued that, owing to IFRS for SMEs' short history and its lack of application by other jurisdictions, mandatory adoption of the standard was impossible, and full application would also be impossible unless changes were made, including amendments to the expected useful life of goodwill. The EC had asked EFRAG to conduct a purely technical exercise, rather than providing advice on the adoption of IFRS for SMEs. The majority of EFRAG participants (Interviewees 2, 3, 10, 13, 15 and 21) were aware that its task had been simply to conduct a comparison in order to flag up any incompatibilities between IFRS for SMEs and the EC directives:

> *I remember they wanted advice detailing in which points this standard could be incompatible with the directive, and that's what we did … So this specific requirement of analysing the compatibility of this standard with the directives was very specific, because for us this standard* [IFRS for SMEs] *never was very important, because it was not under our role, because it was not going to be endorsed. So that's why the working group was created, for a very specific requirement, this requirement; and then we complied with that requirement and we gave our advice to the European Commission* (Interviewee 2).

Interestingly, although the majority agreed on EFRAG's perceived mission, their interpretations of the flagged issues and incompatibilities differed. Some perceived that these issues were minor and could easily have been overcome (Interviewees 15 and 21), while others perceived them as major obstacles that would hinder adoption of IFRS for SMEs (Interviewee 9). Interviewee 9 stated that the flagged issues were deemed to be major constraints, and argued that the EU jurisdictions would not adopt the standard unless the EC directives and IFRS for SMEs were aligned with each other. However, Interviewees 15 and 21 expressed completely different views on the flagged issues. According to Interviewee 15:

> *If you go back to that study and you look at the differences, the differences between the directive and IFRS for SMEs were not huge, and it was a matter of how you looked at those differences. So the differences could be viewed as minor, I think, that could be worked around, or they could be considered as complete roadblocks making it completely impossible. So I think the differences ended up being an excuse to kind of maintain the status quo.*

Thus, EFRAG's role was not to drive the EC decision in a particular direction, but to provide a simple answer to the question asked. The next sub-section discusses NASBs' decision-making processes and the influence of EFRAG's flagged issues on their rejection decisions.

6.2.2 OIC's and DASB's decision-making processes in rejecting IFRS for SMEs

NASBs' levels of discussion, in-depth analysis and vocal participation in IFRS for SMEs varied significantly. For instance, the OIC and DASB wrote only a handful of letters discussing IFRS for SMEs. The vast majority were addressed to EFRAG or the EC, and were rarely directly addressed to the IASB (OIC 2010a, 2010b, 2012, 2014a, 2014b; DASB 2007, 2010a, 2010b, 2011, 2012, 2014a, 2014b). In other words, the OIC neither consulted and discussed with national stakeholders, nor conducted a single field study with regard to IFRS for SMEs. According to Interviewee 22, in Italy, adoption of IFRS for SMEs was neither voted on nor discussed in detail because there was no need for it in Italy, and the obvious option was for the OIC to continue to develop Italian GAAP:

> *OIC interacted through EFRAG, mostly through EFRAG, so we had a second-level relationship with the European Commission and the IASB. We provided our feedback and our comments to EFRAG, and then EFRAG spoke as a single European voice to the European Commission and the IASB* (Interviewee 22).

In the Netherlands, the DASB did not participate directly in the issuance of IFRS for SMEs, but only conducted a round-table discussion with national stakeholders on the EC's consultation draft (DASB 2010a) and briefly considered adoption of the standard. According to Interviewee 20, the standard did not fit with the Dutch accounting framework, so it was not seriously considered as a possible replacement for Dutch GAAP. The DASB does not:

> *…interact with the IASB on IFRS for SMEs because we don't apply the standard and also we don't interact with the European commission because that is up to the Dutch government. We do share our views with Dutch government* (Interviewee 20).

The OIC expressed its perception of IFRS for SMEs in a letter addressed to the EC, which stated that the standard was deemed to be robust and complete, maintained the fundamental principles of IFRS, and was suitable for private companies (OIC 2010a). However, it argued that the standard was not welcomed in Italy because Italian GAAP was directly linked with taxation and capital maintenance. Adoption of the standard would increase Italian SMEs' burden because they would have to prepare additional sets of accounts in accordance with Italian GAAP for tax purposes, and it would also burden the Italian government owing to the need to incorporate the standard into its regulations, tax system and accounting practice. The expected advantages, including attractiveness to international investors, would not outweigh the expected costs, so existing barriers would not be overcome. The OIC also noted major inconsistencies between IFRS for SMEs and the EC directives: "we noted several significant specific differences in the 'rules' expressed by the Standard versus the provisions of the directives presently in force" (OIC 2010a, p.7). Interviewee 22 added that:

> *Obviously, adopting IFRS for SMEs was probably not considered as an option – not as a viable option – because of the previous incompatibilities and because of other incompatibilities which have not been listed at the European accounting directive.*

Similarly, the DASB expressed its perception of IFRS for SMEs through letters to EFRAG and the EC. For instance, in a letter to EFRAG in 2007, it raised fundamental concerns about the standard. According to the DASB (2007), ED-IFRS for SMEs was too complex, its scope was too extensive, and the IASB's top-down approach was inappropriate. A bottom-up approach to issuing the standard was necessary because this would enable various stakeholders' needs and preferences to be investigated, leading to the development of a balanced standard. The DASB only conducted a single round-table discussion with national stakeholders, and the results of its consultation were presented in a letter to the EC. According to the DASB (2010a), although the IASB had simplified the standard, it was deemed to be too complex, not useful, and disregarded the need for SMEs to harmonise their financial statements internationally. The DASB argued that Dutch SMEs preferred their own national GAAP because it satisfied their needs. It also indicated that many other incompatibilities had not been identified by EFRAG's comparison study, indicating the level of incompatibility between the standard and the EC directives (DASB 2010a, 2010b).

It can be seen that the adoption of IFRS for SMEs was, at most, briefly discussed by the OIC and DASB, owing to the perceived lack of need, inadequacy and inconsistencies between the standard and EC directives. They both agreed that there were inconsistencies between the EC directives and the standard which were considered to be roadblocks to adoption. However, the ASCG had a different view and level of involvement with regard to IFRS for SMEs, as discussed in more detail in the next sub-section.

6.2.3 ASCG's decision-making process in rejecting IFRS for SMEs

According to Interviewees 7, 12 and 14, the ASCG participated extensively in discussions on IFRS for SMEs because it thought that the standard might be adopted in the EU or Germany, indicating a need to promote the voice of German SMEs. According to Interviewee 7:

> *There was a feeling that we should closely monitor what is happening at the IASB, and we should probably exercise our technical influence in getting the IFRS for SMEs closer to where we believed it would be of benefit for German entities, should the time come that the circumstances changed and the government would allow using the IFRS for SMEs.*

The standard was deemed to be important, and was considered to have significant potential for German companies, which led the ASCG to conduct in-depth analyses of the standard and its suitability for German SMEs (Interviewee 14). A letter sent in 2006 (ASCG 2006) illustrates the importance of the IASB's IFRS for SMEs project, because at that time the Federal Ministry of Justice, with the ASCG's support, was considering modernising German GAAP. The standard was then being considered as a possible solution to replace German GAAP; however, the letter flagged many concerns about the IASB's project, including a need for simplification.

In 2007, the IASB asked for surveys and field tests to be carried out with regard to its ED-IFRS for SMEs (ASCG 2007b). In turn, the ASCG commissioned Prof. Dr. Axel Haller and Dr. Brigitte Eierle to conduct a survey study, which aimed to gather empirical evidence on whether the proposed standard met the needs and expectations of German SMEs. According to the ASCG (2007b), German SMEs' participating in the survey revealed that the main users of their financial statements were managers, owners, banks and tax authorities. Therefore, the IASB's focus on general-purpose financial statements aimed at external users would be inappropriate. Shortly thereafter, the ASCG commented on EFRAG's draft response to the IASB's ED-IFRS for SMEs, and supported EFRAG's argument that the standard needed significant simplification, better measurement and more rigorous evaluation of the needs of SMEs and users of their financial statements (ASCG 2007a).

The ASCG (2008) later conducted another field test in which 15 participants were persuaded to apply ED-IFRS for SMEs. The participants produced eight balance sheets, seven income statements, six cash flow statements, and five notes between them. The ASCG found that, in general, application of the standard was burdensome and would be impossible without the help of external auditors, and its increased disclosure requirements and detailed notes would lead to the publication of sensitive business information. According to the ASCG (2008, pp.2-3):

> *"As most German SMEs have not yet looked into IFRS in more detail, the field test was especially challenging for German SMEs … For example, notes were too burdensome to prepare. For one solely due to the vast number of required notes, but also because additional information would have had to be generated and prepared … Therefore, all companies noted that it is very likely that various additional issues would arise when preparing "real financial statements" and when actually having to deal with problematic details of the requirements. For example, "cost of inventories" seemed like a sensitive approach for most participants; however, those trying to determine the cost of inventories realized just how difficult it was to apply. Therefore, the results presented in this report can only be indicative of the range of problems SMEs might face when applying an IFRS for SMEs".*

The results gathered by the ASCG were written up and presented to Paul Pactor, advocating the views of German SMEs (Interviewee 14), and thereby indicating the ASCG's faith in, involvement with and high expectations of IFRS for SMEs.

In 2010 the ASCG commissioned another survey study to investigate the usefulness of the final issuance of IFRS for SMEs to Germany's small but publicly traded entities (ASCG 2010c). The ASCG's (2010c) results illustrate that the majority of participants supported using the standard because it would introduce major simplifications and reductions in disclosure requirements compared with IFRS. However, non-publicly traded entities were less likely to support using the standard, and had less knowledge of it than publicly traded entities.

Shortly thereafter, the ASCG commented on the EC's discussion of IFRS for SMEs. It argued that the IASB had simplified the standard compared with its former draft, and that it would be useful to companies that had international business activities, were members of international groups or planned to be publicly listed. However, it suggested that the scope of entities subject to the standard should be based on size criteria rather than qualitative characteristics (ASCG 2010a). Also, the ASCG proposed application of IFRS or IFRS for SMEs to entities' separate financial statements, without the need to prepare additional statements in accordance with national GAAPs. Such a move would cause many issues for jurisdictions that did not permit use of the IASB's standards in separate financial statements, as in Germany where profit distribution, taxation and capital maintenance were linked with the national GAAP. However, these obstacles and issues were not insuperable, regardless of the accounting system used for separate financial statements, and it supported its argument by pointing to the results of a KPMG (2008) study (ASCG 2010a).

The ASCG also commented on EFRAG's comparability study between IFRS for SMEs and the EC directives. According to the ASCG, the issues flagged in EFRAG's analysis did not provide sufficient basis for rejecting the standard's adoption in the EU, and that SMEs should be given the option of applying it (ASCG 2010b). The ASCG's perception of EFRAG's flagged inconsistencies contradicted those of the OIC and DASB, indicating different interpretations of these issues at a national level. It can be seen the ASCG's support for the standard, and its active participation in the standard's issuance, field tests and surveys, indicate that it perceived certain advantages in adopting it. The next section discusses the advantages and disadvantages of IFRS for SMEs from the perspectives of EFRAG and those EU jurisdictions that rejected adoption.

6.3 EFRAG's and EU NASBs' perceptions of the advantages and disadvantages of IFRS for SMEs and their influence on decisions

6.3.1 EFRAG's and EU NASBs' perceptions of the advantages of IFRS for SMEs

Previous studies and the participants from EFRAG, the ASCG, OIC and DASB agreed that many of the expected advantages of the standard's adoption related to the shared conceptual framework between IFRS and IFRS for SMEs (e.g. IASB 2009; EC 2010; Ernst & Young 2010; AICPA 2018; Interviewees 2, 7, 20 and 22). Since, adoption of IFRS had caused many jurisdictions to introduce courses to educate new accountants on the standards, in turn had led to fewer courses on national GAAPs. According to Interviewee 14, courses focusing mainly on IFRS had not been taught in German universities, but when the EU mandated adoption of the standards in 2002, that had affected the education system. German universities now taught IFRS and rarely taught courses on German GAAP, even though many companies still applied the latter. Adopting IFRS for SMEs would ease the process of educating accountants on IFRS, because IFRS for SMEs would provide a fundamental basis for learning IFRS owing to their shared conceptual framework (Interviewee 14). It would also improve SMEs' preparation of financial statements because they would be based on a high-quality accounting standard (EC 2010; Interviewees 3, 8 and 22). According to Interviewee 3:

> *In terms of "quality", my version of quality would be something derived from that, processes that people have used to establish a standard … And arguably, if a standard has been developed at IFRS level, it's gone through a lot of due diligence, more than anywhere else.*

SMEs preparing accounting statements in accordance with IFRS for SMEs would benefit from international comparability and harmonisation. Unified accounting regulations for SMEs worldwide would eliminate many national GAAPs, which in turn would ease SMEs' communication with other entities around the world (e.g. EC 2002; 2010, 2013; Yu and Wahid 2014; Amiram 2012; Interviewees 2, 7, 8, 9, 13, 14, 15, 20 and 22). According to Interviewees 2 and 8, EU jurisdictions have completely different accounting regulations, even though NASBs comply with the EC directive because the latter is very general, and interpretations of its laws vary across the EU. The IFRS for SMEs would provide a solution to minimise inconsistencies among EU SMEs' accounting regulations, which would create a unified accounting language across the EU. According to Interviewee 22, the main advantages of adopting IFRS for SMEs were "portability and better comparability of financial statements across borders". Interviewee 7 further explained that:

> *The key driver for IFRSs, either big or small, is the consistent application, so we don't follow 200 different sets of accounting standards, but we follow one set and we try to do it the same as best as possible. And the same obviously would go for the IFRS for SMEs as well.*

In order for SMEs to raise capital internationally, they must adhere to transparent accounting regulations, and IFRS for SMEs would fulfil this requirement. According to Interviewee 3, it is very difficult for creditors and credit rating agencies to allocate available funds, owing to their need to understand various different sets of accounts. Adopting the standard would ease their decision-making because all entities would adhere to a single set of accounting standards:

> *Harmonisation has a goal to enable the companies to trade over to it, to move the capital from one camp to another, to allow the investors to assess which country, which region, which company, etcetera, etcetera is better for locating the capital, though of course the most advantage of this standard is worldwide use* (Interviewee 10).

Since EU-listed companies are required to publish consolidated financial statements in accordance with IFRS (EC 2002; IASB 2018b), SMEs' transition from national GAAPs to IFRS would require a fundamental overhaul. According to Interviewee 22, one of the main advantages of adopting IFRS for SMEs would be the ease of transition from IFRS for SMEs to the IFRS environment because:

> *As a company grows in size and becomes a listed entity, the transition from IFRS for SMEs to IFRS would be a smoother one than the transition from the old Italian national accounting standards to IFRS.*

In the case of subsidiaries and entities with cross-border operations, their accounting statements would benefit from adoption of IFRS for SMEs. Adoption would improve competition within and between markets because it would enhance comparability through the use of a shared accounting framework, which firms need in order to better understand and assess their rivals and other markets (Interviewee 13). It would also be easier for subsidiaries to prepare and assess their performance under consistent accounting regulations such as IFRS for SMEs compared with various inconsistent national GAAPs (Interviewees 2, 3, 9, 12, 13 and 14).

According to Interviewees 3, 9, 12 and 14, it would make no sense for SMEs engaged in cross-border operations to have their business transactions recorded under different accounting standards, since they would have to maintain multiple sets of books, which would be costly, because they would have to consolidate financial statements in order to better assess the group's performance. According to Interviewee 3:

> *The amount of trading across borders for SMEs is significant … if you're in Germany and you're in the Netherlands, you may only be five miles away, or even 500 yards away, and it's likely you're going to be trading cross-border. So harmonisation's a very good thing. I went to one conference many years ago in The Hague in the Netherlands, and one of the most impressive speakers was a woman who owned nurseries – these are gardeners, not children's nurseries. It was a small company, and one of her units, one of the nurseries, was in the Netherlands and the other one was in Germany; there was a difference of something like 10 or 20 miles. And she had to produce two sets of accounts, based on very, very different principles and criteria, and*

measurement and recognition, things such as that. And she couldn't therefore see… One of the things she wanted to see is which one is performing the best.

Adoption of IFRS for SMEs would benefit not only SMEs, but also NASBs. Participants stated that adopting IFRS and IFRS for SMEs as issued by the IASB, as well as any future amendments, would ease NASBs' decision-making processes (Interviewees 2, 7, 8, 12, 20 and 22). They argued that issuing accounting regulations requires a thorough decision-making process, which is costly and time-consuming compared with readily usable accounting standards such as those of the IASB (Interviewees 20 and 22). According to Interviewees 7 and 12, adopting the IASB standards would satisfy listed entities and SMEs, which would reduce the cost of issuing accounting regulations. Jurisdictions that adopted these standards would not need to have national standard setters in their ministries of finance to produce accounting regulations; they could just buy them off-the-shelf and implement them.

However, such an approach is deemed appropriate for developing countries and jurisdictions that do not have national standard setters, because such countries either have no standards or use the IASB's accounting standards (e.g. Kaya and Koch 2015; Interviewee 7). According to Interviewee 12:

If you have this IFRS for SMEs as a booklet of 2,000 pages, including all the basis for conclusion, that's easy. Someone does it in London, you trust in the people who did it in London. You've got a booklet and you don't have to set up someone in your backroom, in your own ministry of finance or whatever, and think about it and produce it. As a smaller country, a newer country, you'd look for a product which is easy to buy in more than one sense, not only pay for it, but buy into it. That's a good advantage. It has, supposedly, all the technical issues in it that are likely to appear. It even has financial instruments in there which means that if you don't have financial instruments, just skip that chapter. That's why it was adopted in a number of countries, I believe.

Therefore, it can be seen that participants associated adoption of IFRS for SMEs with many benefits. However, not all participants were convinced that such advantages would materialise or would outweigh the costs. Adopting IFRS for SMEs would not be costless, so there were disadvantages to the adoption, as discussed in the next sub-section.

6.3.2 EFRAG's and EU NASBs' perceptions of the disadvantages of IFRS for SMEs

Despite the perceived advantages of adopting IFRS for SMEs, many participants condemned such a move in their jurisdictions for many reasons. Interviewees 20 and 22 argued that it would be costly and difficult for jurisdictions that have national GAAPs to disregard all previously-issued accounting standards. Interviewee 22 stated that:

For those nations who have already an accounting standard setter in place and who already are used to using their own accounting standards, it would be a very difficult move to throw away the usual accounting standards and adopt IFRS for SMEs all of a sudden.

Also, they questioned the usefulness of the standard's adoption and characterised many of the perceived advantages discussed in Sub-section 6.3.1 as being theoretical and uncertain to materialise (Interviewees 7, 8, 12, 14, 15 and 20). Interviewees 7 and 8 suggested that adopting IFRS for SMEs would not enhance the comparability of SMEs' financial statements. They argued that, in the case of IFRS, jurisdictions had implemented the standards inconsistently, and variations also existed among entities within the same jurisdiction, suggesting that similar behaviour would be likely to occur in the case of IFRS for SMEs. According to Interviewee 14:

If the general idea is to have a comparable set of standards or comparable financial reports by SMEs, I think the practice would have been much different and the financial reports might not have been as comparable as one would have hoped for, because it's always a big challenge to have a set of standards applied across the world.

Participants not only argued that comparability of SMEs' financial statements would be difficult to accomplish, but also that the expected benefits were limited. According to Interviewees 7, 8, 12 and 15, SMEs rarely compare their financial statements with one another, and seldom engage in international activities or seek international funds, so they have no need to harmonise their accounting regulations around the world. The expected benefits to national standard setters were also considered to be limited. Interviewee 20 argued that:

The other advantage would be that standard setting becomes less expensive because you delegate the work to somebody else. Again, that would be an advantage, but the costs related are not that big, and the other point is it would still not solve the issue that we need a national standard setter. Because in the Netherlands, the national standard setter also deals with many not-for-profit entities for which also IFRS for SMEs is not really tailored, so that economy that we would achieve would be there but would be limited.

Furthermore, adoption of IFRS for SMEs would require SMEs, regardless of size, to prepare the entire set of financial statements, including profit and loss accounts, statements of comprehensive income, balance sheets, cash flows, notes and statements of changes in equity. This contradicted the notion that micro and small SMEs should not be overwhelmed with accounting requirements (Devi and Samujh 2015; Ram 2012; Saucke 2015; Interviewees 10, 14 and 22). A comparison between IFRS and IFRS for SMEs indicated that the latter would be less complicated, require less disclosure, and provide limited options for easing its implementation (IASB 2018a; Interviewees 20 and 22). However, compared with national GAAPs (e.g. German, Dutch and Italian GAAPs), the standard would be much more complicated and untailored to SMEs' size, and would not satisfy their needs (Interviewees 7, 14, 20 and 22). According to Interviewee 22, another disadvantage of IFRS for SMEs was that it would not reduce small and micro entities' accounting burden, unlike Dutch GAAP which is tailored to all non-listed entities because they are able to apply fiscal valuation principles.[8] This is a popular facility not permitted under IFRS for SMEs, and it mandates limited disclosure requirements compared with the standard: "So all these elements would make IFRS for SMEs still, although it is less complex than IFRS, still fairly complex and expensive compared to Dutch GAAP" (Interviewee 22).

With regard to the shared framework between IFRS and IFRS for SMEs, despite being touted as an advantage, it was considered a disadvantage for many reasons. First Interviewees 2, 10 and 14 questioned whether the shared framework had ceased to exist or might soon perish. They stated that the IFRS for SMEs framework was neither identical to IFRS nor completely different, but something in between (Interviewees 2, 10 and 14). When the IASB issued IFRS for SMEs, it used the IFRS conceptual framework, reduced its disclosure requirements and redrafted how the standards were written (IASB 2009). This caused IFRS for SMEs to differ from IFRS, which led to confusion among its readers, because this paraphrasing caused them to question whether they should interpret IFRS for SMEs exactly as they interpreted IFRS, or whether the IASB meant to change the standard (Interviewee 14). The IASB did not plan to interpret all IFRS amendments for IFRS for SMEs (IASB 2009), indicating that the shared conceptual framework might become weaker or perish. According to Interviewee 2: "If the IASB don't change it in the future, so if it's not a temporary matter, but a permanent matter that they don't change the standard, in fact that means the conceptual framework is going to be different". Interviewees raised concerns that IFRS for SMEs is diverging from IFRS because many changes introduced to the latter are not being incorporated into the former, going against the IASB's concept of having a similar conceptual framework for its standards. According to the ICAEW (2018b):

> *"New IFRS standards and amendments such as IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers, IFRS 16 Leases and IFRS 17 Insurance Contracts have not been incorporated into the IFRS for SMEs ... Although the IFRS*

[8] According to AN Valuations (2015), "Dutch fiscal valuations are based on 'reele waarde', meaning fair value. This concept is based on the arm's length principle and a buyer and seller who are both informed and independent. This principle has consequences for the valuation cash flows as well as the valuation parameters."

for SMEs includes guidance on fair value measurement, this does not reflect the revised definition of fair value in IFRS 13 Fair Value Measurement. There are, as a result, some significant differences between the IFRS for SMEs and IFRSs. Since the IFRS for SMEs is intended to apply to SMEs, these differences are expected to persist in the future, although the extent to which new and amended IFRS standards are incorporated into the IFRS for SMEs at a later date is uncertain".

Another issue is that the conceptual framework of IFRS for SMEs was based on the conceptual framework of IFRS, rather than on the needs of SMEs and their users. According to Interviewee 3, the IASB:

…started off with this magical IFRS, and we will make it proportional, okay. And I think the argument about proportionality is really quite problematic, because it assumes a lot about other users. So if you were going to say we will make this proportional, how do you do that? It's very tricky to say what should be amended and make it useable for somebody else, instead of saying, "What do you want? What do you actually want?"

According to Interviewees 2, 7, 8, 14, 15, 18 and 19, managers, owners and lenders such as banks all have access to tailored financial statements that satisfy their needs, regardless of the standard's adoption. For instance, managers and owners are often involved in the business on a daily basis, so they have access to insider information and financial statements tailored to their needs, whether prepared under national GAAP or IFRS for SMEs (Interviewees 8 and 19).

Similarly, banks and creditors can demand any information they deem necessary because SMEs must comply in order to secure loans (Interviewees 7, 14, 15, 18, 19 and 20). According to Interviewee 14:

Banks actually surprised me the most, because their view was, "Yes, everything is very interesting, that the IFRS for SMEs suggests." When we asked all the stakeholders, we always asked them about the draft IFRS for SMEs, so we didn't ask them again on the final IFRS for SMEs. But regarding the draft, they would say, "Yes, everything is very interesting. Information on deferred tax assets is very interesting and all this information that the standard asks for is very interesting. However, to be honest, we have our own evaluation systems. We have our black boxes and we won't tell anyone how we go about evaluating a company and coming to our loan decision." So, they said, "We don't care what kind of standard the companies apply. As long as they prepare financial reports, we will ask them additional information as we see fit, and we will get the information because the company wants the loan, and therefore we don't actually care whether they apply national GAAP or IFRS for SMEs, even though we do see the merits in a lot of information that we get from IFRS for SMEs." So, they surprised me, that they would rather apply their own evaluation system instead of having the information available to everyone by IFRS for SMEs financial statements.

Interviewee 7 further explained that, financial statements are only a kind of quality control to check whether they conform with other information provided by SMEs. This interviewee argued that SMEs' business models and plans for using requested loans are more important than financial statements; banks and lenders do not lend just because SMEs provide rigorous financial statements, since these statements reflect the past not the future. Financial statements may provide information on SMEs' indebtedness and obligations compared with requested loans, but they do not provide any information about the future.

Similarly to previous studies (e.g. Sian and Roberts 2009; Gassen 2017), the vast majority of participants agreed that SMEs' main use of financial statements is for tax purposes (Interviewees 2, 7, 9, 12, 15, 19, 20 and 22). They argued that owing to the direct link between accounting regulations and taxable income, in some jurisdictions SMEs would have to prepare additional sets of financial statements on top of national GAAP if the standard were adopted. Such a move would increase their financial reporting costs and burden, resulting in limited benefits (Interviewees 9, 10, 14 and 20). According to Interviewee 14:

> *All these huge institutions, they were not in favour of IFRS for SMEs. They said it would just be additional work, it would be too complex and too costly, and so in Germany there was never a really pro-IFRS for SMEs view in general*

Interviewee 20 further explained that:

> *In general, because we have a well-functioning set of standards for non-listed entities, there is little appetite or need for an additional set of standards for those entities. So we have a well-functioning set of Dutch GAAP accounting standards and there is no call for additional standards. Stronger even additional standards would limit comparability, and in that sense there is no obvious advantage of going for an additional set, whether that is IFRS for SMEs or another set for small – well, for at least unlisted entities, let me phrase it like that.*

Unlike many EU countries, in the UK, tax regulations are independent of national GAAP, because although financial statement figures form the basis for taxable income, they are modified in accordance with complicated and detailed tax legislation (Simon 2016). Interviewees 9, 14 and 20 argued that creating two different sets of rules, as in the UK's approach, was not supported in their countries and was considered complicated and unjustifiable. According to Interviewee 9, the main disadvantage of IFRS for SMEs is:

> *The fact that it's not necessarily aligned with the tax code, the national tax code, which usually is more based on the local national accounting GAAP. So the people were*

saying "okay, do we still need to do the national GAAP, so you ask me to add an additional layer of cost?", and they were strongly against that.

The direct link between national GAAPs and taxation is likely to have influenced not only SMEs, but also governments. According to Interviewee 20, unlike the UK, many EU jurisdictions, including Spain, Italy and Belgium, have strong links between statutory and book income and taxable income, and it would be very complex for them to adopt IFRS for SMEs because it does not encompass national tax regulations and statutory requirements. EU countries' strong connections between national GAAP and tax regulations meant that jurisdictions would have to change their tax regulations fundamentally, and train their staff in accordance with IFRS for SMEs if they wished to adopt it (Interviewees 20 and 22). Interviewee 22 further stated that "the government again is not very eager to have … an additional set of standards", and explained why adopting IFRS for SMEs would not be welcomed in Italy. According to Interviewee 22, when the EC had mandated adoption of IFRS, it had been a huge issue in Italy because the Internal Revenue Service (IRS) found it very difficult to assess banks', listed companies' and insurance firms' taxable income appropriately. Even though the IRS had adopted and acquired competence in IFRS, and therefore had a team specialising in IFRS, it was still battling with this switch. Clearly, the same training gap and difficulty would apply in the case of adopting IFRS for SMEs, because the IRS would not be equipped to assess financial statements and income based on financial statements prepared in accordance with the standard. In the case of Germany, the Ministry of Justice is responsible for preparing national GAAP, which is used as the basis for taxable income. According to Interviewee 7, since separate financial statements are heavily tied to the German government, adopting IFRS for SMEs would have meant that it would have to surrender its legislative power to the IASB, but "I could not see that the German government would ever let go of the separate financial statements". This indicates the existence of factors other than the perceived advantages and disadvantages of the standard's and are discussed in more detail in the rest of this chapter.

6.4 Coercive first dimension of power: Influence of various entities on EU NASBs' decision-making processes

The remainder of this chapter draws on the skeletal theoretical framework introduced in Chapter 4 (Table 4.1), which includes the coercive dimensions of power, mimetic-pragmatic moral and cognitive legitimacy, and normative-pragmatic moral and cognitive legitimacy, as well as culture, history and authority, to examine how various entities and factors influenced

EU NASBs' decision-making processes. It focuses specifically on the influence of the coercive first dimension of power, culture, history and authority, and pragmatic and cognitive legitimacy over NASBs, because analysis of the interviews and publicly available documents illustrate their importance and relevance, and provide enriched explanations of the data gathered for this study. The next sub-sections discuss various actors' participation in rejection decisions.

6.4.1 Coercive first dimension of power: German SMEs' influence on Federal Ministry of Justice's and ASCG's decision-making processes

In 2009, the German Federal Ministry of Justice introduced a plan to modernise the German commercial code in accordance with international accounting regulations; however, it made no direct reference to international rules or regulations (Hellmann et al. 2013; Fülbier et al. 2017; Interviewee 12). According to Interviewee 12, during the "overhaul" of the commercial code, the Ministry of Justice needed an expert in both accounting and German law, but because it was not allowed to hire anyone directly, it asked the ASCG to hire an expert and then second the appointee to the Ministry of Justice. The Ministry of Justice insisted that the ASCG should not engage with or advise the expert at all, but should leave him alone. Once the final draft was complete, he was required to explain why he had chosen certain accounting treatments, which in some areas was to align the German commercial code with IASs. These areas were fiercely debated, and SMEs lobbied the government to prevent or minimise any overspilling of international accounting into the German commercial code (Hellmann et al. 2013; Interviewee 12). Hence, German SMEs were vocal and were able to modify the Ministry of Justice's outcome (Interviewees 7, 12 and 14). According to Interviewee 12, German SMEs were opposed to internationalisation:

> *Internationalisation, even recently, gets a flavour which isn't that positive anymore. Even some of the ways when they got it closer were not welcomed really… They are very vocal, and because they are vocal and very active, they have loads of employees, they are a common denominator of the political scene and they can really influence the decision making. They can ask for meetings in the Ministry of Justice, and if then they claim that god-knows-what will break down if this accounting is promoted, they are likely to have an open ear at the Ministry of Justice.*

Interviewee 7 further explained the extent to which German SMEs influenced the ASCG's decision making. He argued that IFRS for SMEs was greeted with much antipathy in Germany when it was issued in 2009, and SMEs were quick to lobby the government not to incorporate any part of it into German legislation. Thus, the ASCG's decision-making process with regard to IFRS for SMEs ended even before it began.

German SMEs are evidently actively involved in and capable of significantly modifying the Ministry of Justice's decision-making process in order to prevent any changes that do not satisfy them. This, in turn, indicates that they have considerable influential power over the decision-making process, unlike the ASCG, which has weak authoritative power and influence over the German government. However, German SMEs are not the only entity influencing the Ministry of Justice's decision-making process. The next sub-section discusses the EC's influence on EU governments and NASBs.

6.4.2 Coercive first dimension of power: The EC's influence on EU governments and NASBs

Since EU jurisdictions must comply entirely with EC directives (EC 2016b), all participants from EFRAG, the ASCG, OIC and DASB, without exception, agreed that governments and NASBs cannot challenge EC laws, nor adopt any standards that may contradict any EC directives (Interviewees 2, 3, 7, 8, 9, 10, 12, 13, 14, 15, 21 and 22). They argued that the EC's (2010) rejection of IFRS for SMEs means that the standard does not exist in a legal sense in Europe, and that it is not endorsed, so no entity in Europe can claim compliance with the standard. Interviewee 14 provided an example of how the EC's rejection of IFRS for SMEs influenced the ASCG and the German government with regard to the standard:

> *The EU Commission, especially the European Parliament, decided, "No, we do not want an IFRS for SMEs in our European legislation", and this has actually been the point when... this took out all the energy of the project. Because we were working on something and trying to improve something that we were sure at that time Europe didn't want any more, and if Europe didn't want to apply the IFRS for SMEs, then most likely Germany or member states wouldn't have the chance to apply it individually.*

Similarly, Interviewees 20 and 22 stated that the decision to adopt IFRS for SMEs was first discussed and considered in Brussels rather than within EU jurisdictions, indicating the EC's significant influence on national regulations:

> *For Dutch GAAP we followed Dutch law, and that again is based on the European directives. So as long as there is no provision in the European directives that would either require or at least allow adoption of IFRS for SMEs in European countries, the discussion would not come up in the Dutch accounting standard board whether we can adopt this standard* (Interviewee 20).

Interviewee 22 provided another explanation for failure to adopt IFRS for SMEs in the EU. He argued that the standard was rejected in Italy because of its inconsistencies with EC directives:

> *The debate within the board was, for the first time, when we still had the previous accounting directives, we were aware that we could not implement IFRS for SMEs*

> *because it would clash with the accounting directives which were in force at the time, and the transposition in Italian law of the accounting directive* (Interviewee 22).

Interpretations of the incompatibility between IFRS for SMEs and EC directives varied significantly across EU countries. The OIC, DASB and ASCG referred to EFRAG's compatibility study, which flagged inconsistencies between the standard and the EC directives. The ASCG deemed the flagged issues to be minor and easily overcome, and stated that they should not hinder adoption of the standard in the EU (ASCG 2010a, 2010b), whereas the OIC and DASB argued that these inconsistencies were roadblocks and were the main reason for the standard's rejection (OIC 2010a, 2010b; DASB 2010b, 2010b; Interviewee 22).

However, in 2013 the EC updated the Fourth Directive (Directive 2013/34/EU), and required all EU jurisdictions to incorporate the amendments (EC 2013). According to the EC (2013), the Europe 2020 strategy aimed to enhance SMEs' business environment, reduce their administrative burden and encourage their internationalisation. Although the directive did not refer to IFRS, or IFRS for SMEs, it did refer to IASs that would bring it closer to IFRS for SMEs. Previous studies of the EC's 2013/34/EU Directive (e.g. Brouwer and Hoogendoorn 2017; Di Pietra 2017; Fülbier et al. 2017) have argued that its implementation brought the Dutch, Italian and German GAAPs closer to IFRS and IFRS for SMEs. According to Kaufhold (2015, p.1950), the EC's 2013/34/EU Directive eliminated the vast majority of inconsistencies, so the only issue remaining was "the treatment of unpaid subscribed capital", which Kaufhold deemed to be irrelevant owing to its infrequent use by SMEs. In other words, the revised directive eliminated many existing differences, which would ease adoption of IFRS for SMEs. Interviewee 22 stated that:

> *With the newest accounting directive, which came out in 2013-2014, those incompatibilities were removed because the accounting prescriptions and the accounting directives had been modified so that they had been made compatible with the IFRS for SMEs … After the second accounting directive was introduced and those incompatibilities were removed, we had a freer hand in leading a new set of Italian national accounting standards.*

Current inconsistencies between Dutch, Italian and German national GAAPs and the standard are not caused by the EC directive (Brouwer and Hoogendoorn 2017; Di Pietra 2017; Fülbier et al. 2017). This indicates that in the EU, although the EC is deemed to be very powerful and has vast capacity to mandate changes, this was not the main reason for rejecting IFRS for SMEs. The next section discusses governments and NASBs authoritative power and its influence on the adoption decision.

6.5 Authority of EU governments and NASBs and its influence on rejection of IFRS for SMEs

In the EU, NASBs have different levels of authority. In the case of the ASCG, proposed standards must be approved by Germany's Federal Ministry of Justice, and once the government has published standards in the Federal Gazette, entities are advised to comply with them (Federal Ministry of Justice 2011; Interviewees 7, 12 and 14). This is because compliance with published standards means it can be taken for granted that financial statements have been prepared in accordance with German GAAP. However, if the Ministry refuses to adopt the proposed standards, it either mandates changes or simply rejects their publication, so the standards do not become publicly available and compliance with them cannot be deemed to be in accordance with German GAAP (Interviewees 7 and 12). Interviewee 7 explained in relation to German GAAP:

> *Standards have never been compulsory; they have always been voluntary. And the assumption that whatever we publish is in conformity with German GAAP is evidenced by the government publishing the document in the Federal Gazette. When we have finalised our due process and issued our standard, we send it to the Ministry of Justice. They consider it, they do the check whether they believe it's in conformity with the law. If they believe it is – and usually they do – then they publish the document, and then the document is out there, and the entities are advised to follow it.*

In addition, according to Interviewee 12, the German government's involvement in the ASCG's decision-making process is limited. It only has observer status, because if it were deeply involved, it would be unable to take a totally different approach to the ASCG's recommendations. The German government will appear at the Accounting Regulatory Committee in Brussels, and will work in accordance with German entities' interests, but its perspective on and understanding of German interests may differ from the ASCG's technical perception, which may lead to different voices. Therefore, the ASCG has no authoritative power over SMEs' accounting regulations; rather, the Ministry of Justice is the decision maker and issuer of German GAAP.

In the case of the Netherlands, the DASB is responsible for issuing SMEs' accounting regulations, but the issued regulations have no authoritative power equivalent to a legal requirement (Brouwer and Hoogendoorn 2017; DASB no date). The DASB board's members include auditors, preparers and users of Dutch companies' financial statements. The Authority of Financial Markets, the Ministry of Security and Justice, and the Ministry of Finance are entitled to attend the board's meetings as observers, but do not have a right to vote on the board's decisions (DASB no date).

In Italy, the OIC's board members include preparers, users, accounting experts, financial market experts and auditors. The Italian law published on 11 August 2014, No. 116 of Decree Law 91/2014, recognised the OIC as an independent national standard setter with various responsibilities, including issuance of national accounting principles inspired by best practice and in accordance with the provisions of the Civil Code (OIC no date-b). This law also requires the OIC to report on its activities annually to the Ministry of Economy and Finance and entitles them and Bank of Italy to attend the board's meetings as observers (OIC no date-a, no date-b). The OIC has only recently been recognised as the independent standard setter responsible for SMEs' accounting regulations, which indicates that it has authoritative power to adopt IFRS for SMEs as issued by the IASB. According to Interviewee 22: "Theoretically, OIC could draft an Italian standard which is word by word exactly just like the IFRS for SMEs. Nothing prevents OIC from doing this."

Thus, EU NASBs have differing levels of authoritative power and responsibility for accounting regulations in their jurisdictions (DASB no date; Federal Ministry of Justice 2011; NAF 2015; OIC no date-b). At the time of the EC's (2010) consultation with regard to the suitability of implementing IFRS for SMEs in the EU, the DASB was responsible for issuing national accounting regulations applicable to SMEs (DASB 2010a), whereas the OIC and ASCG were not recognised by law as having any authoritative power over SMEs' accounting regulations (Federal Ministry of Justice 2011; OIC no date-b). The ASCG still lacks such authoritative recognition, whereas in 2014 the OIC acquired this power (OIC no date-b). The DASB strongly opposed adoption of IFRS for SMEs and argued that EFRAG's comparability study did not highlight all existing incompatibilities between the EC directive and the standard (DASB 2010b, 2010b). Its strong opposition may be explained by its fear of losing its authoritative power to the IASB, as confirmed by Interviewee 20, who said that adoption of IFRS for SMEs would at least cause "the loss of, let's say, national autonomy in this, because you would also be delegating your responsibility to another standard setter". On the other hand, the ASCG's support for adoption of IFRS for SMEs and its use as an alternative to German GAAP may be explained by its lack of authority, which caused it to evaluate adoption of the standard and its suitability for German SMEs more neutrally.

Although OIC and DASB participants (Interviewees 20 and 22) at first argued that inconsistencies between EC directives and IFRS for SMEs prevented the latter's adoption, these differences were greatly minimised when the EC updated the Fourth Directive (Kaufhold 2015). Nevertheless, Italy and the Netherlands still did not adopt the standard, indicating that EFRAG members (Interviewees 2 and 15) statement that the regulators may have used the identified incompatibilities as a pretext to protect their authority and legislative power. According to Interviewee 2, these incompatibilities gave them "the perfect technical excuse to say 'I'm not interested in this standard".

Furthermore, since the vast majority of participants agreed that SMEs' main use of financial statements is for tax purposes (Interviewees 2, 7, 9, 12, 15, 19, 20 and 22), they suggested that governments and NASBs were reluctant to relinquish their authoritative power over their tax regulations to the IASB. They argued that such delegation would impose additional requirements on NASBs, such as actively lobbying on and reviewing the IASB's processes in the case of amendments to IFRS for SMEs, which was considered time-consuming and cumbersome. National regulators currently have substantial authority to modify their legislation as they see fit, as long as these changes are in accordance with EC directives, which is much easier than lobbying the IASB to make such changes to its standards:

> *I'd just add I think tax is another major consideration that's… So it's not just – well, it is political. But again, given the size of SMEs, you know, it's the largest employer across Europe, is a very significant part of the economy. Losing power to set standards over those entities also has consequences for a government's taxation policy, so all these things are kind of interrelated as well. You know, it's not just about whether or not rules, you know, match or, you know, whether one rule is better than another rule; there are also other consequences to think about* (Interviewee 15).

Although governments and NASBs agreed to surrender legislative power over their listed entities to the IASB when the EU adopted IFRS for group financial statements, they refused to do so in the case of IFRS for SMEs in order to maintain the remainder of their legislative power. According to Interviewees 2, 7, 12, 13, 15, 20 and 22, if EU jurisdictions had adopted the standard, they would have delegated SMEs' regulations to the IASB. Interviewee 7 explained that:

> *If we stay with the German law, you have full authority over the process; but if we adopt it, an international standard, we delegate that authority to a supranational authority that's sitting in London, and we have no control anymore.*

Similarly, Interviewee 20 deemed such delegation of authority to be a major disadvantage of the standard's adoption in Netherlands. He argued that adoption would cause:

> *…first of all the loss of, let's say, national autonomy in this, because you would also be delegating your responsibility to another standard setter. It would be at least perceived to make accounting more complex and more costly than the present set-up that we have in local GAAP, and so if you say the three disadvantages are loss of autonomy, more expensive – those are the two I think major items there.*

Interviewee 22 provided an in-depth explanation of the extent to which adopting IFRS for SMEs would impact on NASBs' and governments' authority. He stated that:

> *Generally speaking, there is a tendency to self-conservation. All structures in human nature have a tendency to conserve status quo. It is very unlikely that OIC would come forward with the proposal to kill itself! I'm just joking clearly, but there is a tendency to keep maintaining the status quo. Also, there is a consideration that the standards set by OIC, since they involved a very close consultation process of all stakeholders involved, our standards are a better quality, a better fit for Italy than IFRS for SMEs, which I believe is true.*

Although Interviewee 22 joked about how the OIC would be sacrificing itself if it proposed adopting IFRS for SMEs, his comments, combined with other interviewees' assumption of the impact of adoption on their authority, indicate that this joke made light of the severe consequences of an adoption decision. Thus, if EU jurisdictions were to adopt IFRS for SMEs, governments and NASBs would lose the reminder of their authority and legislative power, with fundamental changes to their roles and responsibilities as national regulators. However, other unseen environmental factors including history and culture also played a role in EU jurisdictions rejection, as discussed in more detail in the next section.

6.6 Influence of national accounting history and culture on EU jurisdictions' rejection of IFRS for SMEs

6.6.1 History and culture of accounting in Germany and their influence on rejection of IFRS for SMEs

Previous studies have argued that accounting tradition plays a role in the acceptance and implementation of accounting regulations (e.g. Mir and Rahaman 2005; Albu et al. 2011; Ramanna 2013). Germany's accounting tradition can be traced back to 1329, when a merchant called Hermann Wittenborg recorded unsystematic single entries of accounting transactions (Courtis 1997). Hoffmann and Detzen (2013) and Richard (2005) reveal that the use of fair-value accounting in Germany can be traced back to the fifteenth century, and that in 1794, Prussia was the second country in Europe to introduce accounting regulations. These included clauses relating to bankruptcy and inventory measurement (Richard 2005). For instance, inventory measurement clauses required the use of purchase or saleable price, whichever was lower. Until the mid-nineteenth century, valuation of inventory by historical cost dominated because regulators saw no need to incorporate fair value into law.

However, in order to unify German states' commercial codes and to protect cross-border investors, in 1856 Prussia established the first commercial code, which introduced accounting regulations for every legal enterprise (Hoffmann and Detzen 2013). According to Hoffmann and Detzen (2013), many entities criticised the law for its ignorance of increases in prices, which prevented companies from disclosing true values in their financial statements. In 1861, German entities were given an option to value all their assets by either historical cost or fair value, regardless of whether their values had increased or decreased. Between 1870 and 1873, more than 700 companies were founded, and this economic boom led to increased demand, which in turn led to increased prices. Companies assumed that prices would increase, and therefore overestimated their assets in their financial statements. The 1873 economic boom was described as unstable and an artificial bubble. By the end of the year, many companies were bankrupt, liquidated or had reduced their share capital. The Supreme Court of Commerce of the German Empire determined that the crisis had not been caused by fair value measurements, but by deceptive behaviour and misapplication of the law.

In the late 1920s, Germany experienced another crisis that led to the bankruptcy of major, medium-sized and small banks. Creditors withdrew their investments from all entities, and the German stock exchange was closed for several months. Creditors lost trust in the financial system, which led the German government to update its accounting regulations once again in order to regain stakeholders' trust. These updated regulations prevented revaluation of fixed assets, allowed hidden reserves, and permitted only historical cost as a measurement basis, because the use of fair value had led to deceitful activities. As a result of these crises, the German accounting tradition is embedded with accounting regulations that provide limited disclosure, allow hidden reserves and emphasise conservatism (Heidhues and Patel 2011). When asked to explain why Germany did not adopt IFRS for SMEs, Interviewee 7 suggested that the country's history of fair value measurement and its accounting culture might explain this. According to Interviewee 7:

> *People found out how the system could be misused, and it was heavily misused, and people lost a lot of money. Equally, we had hyperinflation in the twenties of the last century, and also to a certain degree after the Second World War, and people never*

wanted to experience that again. Therefore, there is a general feeling of being prudent, being cautious, so setting aside reserves, building buffers for bad times, because people that have undergone these severe circumstances have basically lost all their property. So they said, "This should never happen again. I'd rather set aside some profit that I made this year and build up reserves for bad times. I save money for bad times." This is very much enshrined in the culture of my country.

In other words, German SMEs are cagey, conservative and reluctant to disclose details of their performance (Heidhues and Patel 2011; Interviewees 3, 7, 12 and 14), so the introduction of accounting standards that might reintroduce fair value measurement or contradict historical and cultural accounting traditions would be opposed or rejected. Interviewee 12 illustrated this:

On the German local GAAP committee … we had someone from a relatively small family-owned company, and he used to say he would not publish anything, because then his teachers' daughters would question him about his salary, which sounds absolutely ridiculous to you and me. However, it's this being cagey about things which small companies still get away with if they don't have to raise money anywhere. This is still seen as a legitimate interest by the German Ministry of Justice, and therefore we cannot go all the way for publicity.

Adoption of IFRS for SMEs would have reintroduced fair value accounting, numerous disclosure requirements and unknown accounting options, and would have eliminated traditionally embedded accounting treatments, so stakeholders quickly lobbied the government to prevent such a move (ASCG 2007b, 2008, 2010c; Interviewees 7, 12 and 14). Interviewee 12 further explained that it would be difficult for Germany to abandon its history, accounting culture and tradition, arguing that the German commercial code:

…that started in the nineteenth century that's a lot of luggage we carry around. We are still for whatever reason very reluctant to let go of that luggage … It might be holding us back, but it's our roots, and we think we've had it for such a long time and we are reluctant to let go … It's history and it's a bit the devil you know is better than the devil you don't know (Interviewee 12).

It can be seen that in Germany, adoption of IFRS for SMEs was rejected because its accounting requirements contradicted Germany's historical accounting tradition and culture, and because the country would no longer have been able to self-regulate its accounting standards. Adoption of the standard would have harmed the German Federal Ministry of Justice's pragmatic and cognitive legitimacy because it would have introduced new accounting regulations that opposed stakeholders' preferences and beliefs, as well as unknown accounting options that might contradict its role and responsibility for satisfying its stakeholders demands.

6.6.2 History and culture of accounting in Italy and their influence on rejection of IFRS for SMEs

Italy has a similarly long accounting history, culture and tradition that can be traced back to Fra' Luca Pacioli, founder of double-entry bookkeeping in 1494 (Zan 1994; Cinquini and Marelli 2007). Over the two centuries following the creation of double-entry book-keeping, the Italian literature focused mainly on how to keep accounting records in accordance with it, and how to transform these records into financial statements (Zan 1994). According to Zan (1994), the era between the seventeenth to the nineteenth century can be described as a crisis, because the Italian accounting tradition deteriorated due to increased "foreign theoretical invasion", which included the French De La Porte code. As a result of this "invasion", the work of French accounting authors was taught in Italian high schools until the middle of the nineteenth century. Italy's adoption of IFRS for SMEs was thus perceived as another potential invasion of its accounting culture. According to Interviewee 13:

> *There was much more reluctance in having, you know, something coming from IASB. … Okay, we have IFRS's, we are happy, thank you very much. Now do you want to invade our countries also with IFRS for SMEs?*

Zan (1994) reveals that Italy has its own distinctive accounting history, culture and tradition. According to Aben (2011), in 1919, Italy introduced the first compulsory severance pay scheme for private employees, which was managed by the National Institute for Social Security; however, the scheme was terminated due to inflation and misallocation of the fund's assets to support the government. In 1956, another scheme was introduced for the public sector and was extended to industrial employees by the end of the 1960s (Baccaro 2002). During the early 1970s, the Italian severance pay scheme included minimum pension payments to every Italian citizen, as well as pensions based on final salary for public-sector, private-sector and self-employed citizens (Gallo et al. 2018). This scheme was funded by a pay-as-you-go system, and was one of the most expensive and complicated schemes in Europe (Baccaro 2002; Gallo et al. 2018). As a result, the Italian government intervened and the scheme was reformed many times.

According to Interviewee 22, one of the main barriers to adoption of IFRS for SMEs was its classification of severance payments as pension benefits. Italy's severance payments are enshrined in its labour laws, and every company must set aside a month's salary for each year that an employee is hired, payable when the employee leaves the company. Under Italian GAAP, such a pension scheme is not recognised as a pension benefit because it is guaranteed by a national fund. However, under IFRS for SMEs, severance payments would qualify as pension benefits, which would make the accounting treatment very complicated for Italian companies. According to Interviewee 22:

> *…frankly, a long-time tradition. That's the way it has always been in Italy. It probably goes back to the Middle Ages, like most things in Italy! Italy has this speciality of having very long traditions. We had a very developed economy here at the time of the Renaissance in the 14th century, so many things like banking or banking traditions or banking habits, or habits of the economy in general, like paying employees for example, they probably originated in that time. Like with accounting, we are home to Luca Pacioli, the inventor of double-entry accounting. This is also the reason why we always have had accounting standards. Luca Pacioli wrote accounting standards for the Republic of Venice in the 16th century, and that's where our tradition of accounting standard setting started. It's very hard for a country like Italy, which has been setting accounting standards for maybe more than 400 years, to give up its accounting standard-setting tradition.*

It can be seen that Italy's rejection of IFRS for SMEs was due to the clash of accounting requirements with the country's long-embedded accounting history, culture and traditions. For example, IFRS for SMEs classifies severance payments as pension benefits, whereas such a treatment is considered burdensome in Italy because every company, regardless of size, would have to recode such transactions.

6.6.3 History and culture of accounting in the Netherlands and their influence on rejection of IFRS for SMEs

The Netherlands' accounting history and culture can be traced back to as early as the fourteenth century. At that time, the northern and southern Netherlands had different accounting methods, which included double-entry book-keeping owing to the influence of German and Italian accounting scholars (Funnell and Robertson 2011). In 1602, Vereenigde Ooostindische Compagnie was the first public company in the world to publish its financial statements. This led to the establishment of the Amsterdam Stock Exchange, the oldest stock market on which traded stocks are purchased and sold (Camfferman 2010; Zeff et al. 2016).

In 1809, the Netherlands adopted the Napoleonic Code de Commerce as the basis for its trade laws. Shortly thereafter, the Napoleonic Code was used as a basis for the Dutch Commercial Code, which took effect in 1838 (Van Oven 1983). According to Van Oven (1983) although the Napoleonic Code influenced the development of the Dutch Commercial Code, the latter reintroduced Dutch accounting regulations that had been enforced prior to the French occupation, including bankruptcy and insurance laws meaning Dutch independent accounting regulations had existed even before the French occupation. The Dutch law defined the preparation of financial statements, which included balance sheets and income statements, and mandatory publication of accounts was first introduced in 1928 (Van Der Tas 2003). According to Van Der Tas (2003), although the accounting profession had existed for many centuries, it became organised in 1895 when the Dutch Institute of Accountants was established. By the 1970s, many accounting institutions had been established, as well as the Tripartite Consultative Body, which was the first Dutch national accounting standard setter (Van Der Tas 2003; Brouwer and Hoogendoorn 2017). The existence of such a long history of accounting regulations indicates their influence on individuals' and entities' behaviour. For example, the IASB used the IFRS framework to develop IFRS for SMEs, regardless of whether SMEs have the same or similar needs and uses for financial statements as public companies (IASB 2009), whereas such distinctions are culturally and traditionally embedded in the Netherlands. According to Interviewee 20:

> *We don't see a natural move towards IFRS for SMEs for unlisted entities, because we consciously make, and that is also our tradition, to have a break between the reporting requirements for listed entities and those for unlisted entities. Because for unlisted entities, the stakeholders and the users are different than those of the listed entities.*

In the Dutch accounting culture, companies have a long tradition of using the net asset value method, which is similar to the equity method. Adopting IFRS for SMEs might have reduced equity, which would have led to a reduction in distributable dividends (Brouwer and Hoogendoorn 2017). Thus, there were inconsistencies between Dutch GAAP and the standard due to traditionally embedded accounting treatments. According to Interviewee 20, many differences existed between Dutch GAAP and IFRS for SMEs due to Dutch history and accounting traditions, and these prevented the standard's adoption. He stated that such inconsistencies included various minimum capital requirements in Dutch GAAP that are not recognised in IFRS for SMEs, such as legal reserve requirements, and thresholds for dividend distribution disclosures on liabilities.

It can be seen that the Netherlands' long history of setting its own accounting regulations led to a national accounting tradition and culture that would have been hindered by adoption of IFRS for SMEs. Thus, these unseen environmental factors influenced the final decision.

6.6.4 Influence of the IASB's Anglo-Saxon accounting model on EU jurisdictions' rejection of IFRS for SMEs

According to Nobes and Parker (2012) and Degos et al. (2018), unlike the Anglo-Saxon accounting model, which is not connected with taxation but is strongly oriented toward informing investors, the Continental European accounting model is strongly associated with taxation and is mainly geared toward informing creditors.

The IASB's proximity to the UK and US, as well as its use of IFRS as a basis for issuing IFRS for SMEs, mean that the standard is mainly investor-oriented, and hence closer to Anglo-Saxon countries than the rest of the world. In the case of the EU, such close proximity was not welcomed, except in the UK which adopted IFRS for SMEs with major modification. Other EU jurisdictions strongly opposed the standard's adoption because their national GAAPs are strongly connected with taxation (Interviewees 7, 13, 15, 20 and 22), which is deemed to be a fundamental characteristic of the Continental European accounting model. Participants also argued that national GAAPs are geared toward creditors (Interviewees 11 and 20):

> *We have strong requirements also to protect creditors, and even shareholders to some extent … There are disclosures on liabilities in Dutch GAAP which again are based on the information needs of creditors, which are also not in that sense covered by IFRS for SMEs* (Interviewee 20).

Interviewee 9 compared the Anglo-Saxon and Continental European accounting models:

> *In some jurisdictions, the most prominent statement is the income statement. For example, I'm thinking about the Anglo-Saxon countries and cultures, where we have a bit more of short terms possibly, compared to the more Continental European national GAAPs, which originally are more set to satisfy the debtors and making sure that companies are not going into bankruptcy, or if it was the case, that the money that could be recovered would be sufficient. So there, I think, they value the benefits, and so, because of those different starting points and those different national GAAPs that we have been working on for centuries, or decades at least, they are not viewing the role of accounting in the same way.*

IFRS for SMEs' proximity to the Anglo-Saxon accounting model was considered inappropriate and a reason for its rejection in the EU. According to Interviewee 22:

> *In the view of Continental Europeans, I think this is quite clear: the IFRS for SMEs are very biased towards the Anglo-Saxon accounting tradition and accounting standards and culture. That's one reason why they would not be considered as something you would adopt in Italy or France or Germany. They might be good for the Anglo-Saxon tradition, but they might not be good for the Continental European tradition.*

Thus, the IASB's proximity to the Anglo-Saxon accounting model was not perceived as a positive feature or as a motive for many EU jurisdictions to adopt IFRS for SMEs. Instead, such closeness caused a backlash in these countries, which led to the standard's rejection. Two fundamental features of the Continental European accounting model are national GAAPs' association with taxation, and an emphasis on creditors rather than investors. Such traditions were roadblocks to the standard's adoption in many EU countries owing to inconsistencies between the standard and traditionally accepted accounting treatments.

6.7 Conclusion

This chapter has discussed the decision-making processes of EFRAG, the OIC, DASB and ASCG with regard to IFRS for SMEs. It has highlighted the perceived advantages and disadvantages of the standard, as well as various visible and unseen environmental factors that influenced adoption decisions. The evidence presented in this chapter has shown that the NASBs had different levels of consideration and participation in the process. Also, different visible environmental factors and unseen environmental factors influenced their decisions to reject IFRS for SMEs. Therefore, rejection of IFRS for SMEs by the German Federal Ministry of Justice, the OIC and DASB did not relate to a single factor domination, nor was it based on simple cost–benefit analyses, but was rather a result of multiple interrelated factors influence on their decision-making processes.

Chapter 7: Development of the skeletal theoretical framework

7.1 Introduction

According to Laughlin (1995, 2004, 2007), the MRT approach is a technique to "flesh out" a theoretical "skeleton". The "skeletal" theory may suggest existence of a general pattern; however, empirical findings are needed to validate and make such a skeletal theory meaningful. In other words, the skeletal theory only provides a language that allows the empirical findings to be understood, and the empirical findings enrich and aid the development of the skeletal theory. Since this study embraces Laughlin's (1995) MRT, the findings of this study are used to enrich and develop the skeletal theoretical framework defined and presented in Table 4.1 and Figure 4.1, respectively. They, therefore, reshape the skeletal theoretical framework by identifying the relevant parts of it, adding needed meat on the bones of the framework, thus making it meaningful and suggesting the need to create a version of the developed framework for each jurisdiction, based on salient characteristics and unique reasons for the decision. This, in turn, justifies the position of this chapter because it draws on the findings presented in Chapters 5 and 6.

The remainder of this chapter is structured as follows. Section 7.2 discusses adoption of IFRS in the EU through the theoretical framework of this study, Sections 7.3 to 7.6 discuss the creation of versions of the theoretical framework for the UK, Germany, Netherlands and Italy, respectively, and Section 7.7 concludes this chapter.

7.2 Explanation of the EU's adoption of IFRS based on the theoretical framework

In the case of publicly-listed entities, EU governments and NASBs were forced to accelerate their moves toward harmonising accounting standards in order to satisfy the needs of capital market investors and issuers, which led the EC to mandate all EU countries to adopt IFRS for group financial statements from 2005 (EC 2000, 2002; Chiapello and Medjad 2009). According to the EC (2000, p.3), harmonisation of publicly-listed entities' accounting regulations was needed because many inconsistent regulations in the EU were "hampering the development of a deep liquid single EU capital market". This was because capital market issuers and investors had to adhere to and comprehend multiple sets of accounting regulations, which was considered cumbersome, costly and confusing (EC 2000; De George et al. 2016).

The existence of many different regulations aimed at publicly-listed companies (EC 2000; De George et al. 2016) meant that their accounting standards were influenced by various environmental factors, including accounting history and culture. The IASB's accounting standards included IFRS's orientation toward an Anglo-Saxon accounting model, which meant that they differed from the Continental European accounting model, and adopting these standards would therefore cause various entities' loss of authority and authoritative power over publicly-listed companies. Nevertheless, EU capital market issuers' and investors' needs for unified or globalised accounting regulations were catered for when the EC accelerated EU countries' harmonisation of accounting standards by mandating adoption of IFRS. This suggests that the coercive first dimension of power was strong, rather than the influence of other environmental factors such as national accounting history, culture or authority, because after the EC mandated this move, all EU jurisdictions without exception adopted these standards, meaning that no country challenged or disobeyed the EC.

Since EU governments and NASBs all endorsed EU-adopted IFRS for group financial statements, they behaved similarly toward the standards, so their outcomes were isomorphic. The EC's domination over governments and NASBs meant that a single entity caused this isomorphic behaviour. Based on the theoretical framework of this study, their isomorphoism is explained by the coercive first dimension of power, rather than the influence of any other component of the framework. Although the accounting histories and culture of many EU countries differ from the IFRS, and adopting these standards would hamper their authority over publicly-listed companies' accounting standards, these obstacles were overcome as a result of the EC's strong influence and exercise of power. However, in the case of IFRS for SMEs, since the EC did not exercise its power to mandate the standard's adoption, its latent power led EU jurisdictions' behaviour to vary. The findings of this study suggest that, although the EC had the capacity to exert coercive power, since it did not do so, other visible and unseen environmental factors influenced the final outcomes and behaviour of governments and NASBs toward IFRS for SMEs.

The findings presented in Chapters 5 and 6 suggest that, in the case of IFRS for SMEs, the FRC's, ASCG's, DASB's and OIC's decision-making processes were not isomorphic but dissimilar. Although they were influenced by similar visible environmental factors, including the EC directives, national governments, laws and stakeholders, and unseen environmental factors such as authority, national accounting history and culture, these factors differed in prominence and exerted varying levels of influence, with differing characteristics inhibiting isomorphism. This explains the causes of jurisdictions' varying behaviours toward IFRS for SMEs, and the UK's major modifications prior to the standard's adoption. It also indicates a need to create a version of the developed framework for each jurisdiction to capture its own unique interrelationships. In so doing, it shows the strength of some visible and unseen environmental factors and relevant entities with regard to the phenomenon under investigation.

Since the strength of visible and unseen environmental factors differ in prominence and characteristics, they are colour coded according to the extent to which they are consistent with or support the entities' own characteristics relating to IFRS for SMEs adoption decisions. A dark green colour suggests that an entity supported adoption of IFRS for SMEs as issued by the IASB, or the standard's adoption did not influence or hinder characteristics such as authority. It also suggests that the entity's national accounting history and culture is consistent with IFRS for SMEs. Light green suggests that an entity did not generally prohibit or oppose adoption of IFRS for SMEs, but that certain inconsistencies prevented its adoption as issued by the IASB. Alternatively, changes and modifications would have been needed prior to adopting the standard in order to preserve the entity's own characteristics, including authority, or eliminate contradictions. It also suggests certain inconsistencies between the standard and national accounting history and culture. A grey colour suggests that the factor is neutral and neither supported, rejected nor was influenced by adoption of IFRS for SMEs. Light red suggests that an entity did not generally support rather than oppose adoption of IFRS for SMEs because many inconsistencies prevented adoption of the standard as issued by the IASB. Alternatively, changes and modifications would have been needed in order to preserve the entity's characteristics or eliminate contradictions, but these changes were deemed inappropriate or received little support. It also suggests that the standard and national accounting history and culture differ significantly. Dark red suggests that an entity strongly opposed adoption of IFRS for SMEs owing to inconsistencies preventing its adoption as issued by the IASB. Alternatively, such a move would have hampered or hindered its features, so the required modifications were deemed impractical, burdensome and costly and adoption was not supported. It also suggests that despite differences between the standard and national accounting history and culture, there may also be some similarities.

Hence, the findings of this study develop the skeletal theoretical framework by showing that not all components were relevant or needed to explain the phenomenon under investigation. There was little support that the second and third dimensions of power and mimetic and normative types of pragmatic, moral and cognitive legitimacy were relevant. Rather, evidence suggested that the coercive first dimension of power, authority, history and culture were relevant. Furthermore, the findings provide the skeletal theoretical framework with needed flesh to make it meaningful and useful for other studies, by explaining how and to what extent the components identified as relevant influenced governments' and NASBs' final outcomes. The skeletal framework also offers a general language and patterns to allow exploration and investigation of the phenomenon under investigation. Figures 7.1–7.4 present developed versions of the theoretical framework of this study based on the empirical findings for the UK, Germany, the Netherlands and Italy respectively.

The next section discusses the version of the theoretical framework for the UK based on the findings of this study.

7.3 Version of the theoretical framework for the UK

In the UK, both visible and unseen environmental factors influenced adoption of IFRS for SMEs. Visible factors included the coercive first dimension of power, which captures the influence of the EC, the UK government and national stakeholders. These entities provide a deeper understanding of the phenomenon under investigation because they had varying levels of influence and differing perceptions of the standard. National stakeholders were the entities least capable of influencing the UK NASB because they had no direct authority over the decision-making process. Rather, they were offered various opportunities throughout the decision-making process to indirectly influence or lobby the UK NASB, or as a last resort the UK government, in order for their needs to be addressed. Although UK stakeholders generally supported the adoption of IFRS for SMEs, they did not support the ASB's first proposal to adopt the standard as issued by the IASB, because it would have been costly and cumbersome for many entities, including not-for-profit organisations. As a result, national stakeholders demanded certain changes, including the removal of distinction between entities based on public accountability. In 2012 the FRC acceded to their suggestions and removed these features from FRS 102 prior to its endorsement in 2015. Since national stakeholders did not support adoption of the standard as issued by the IASB but were not generally against it, they are represented in light green rather than dark green in Figure 7.1.

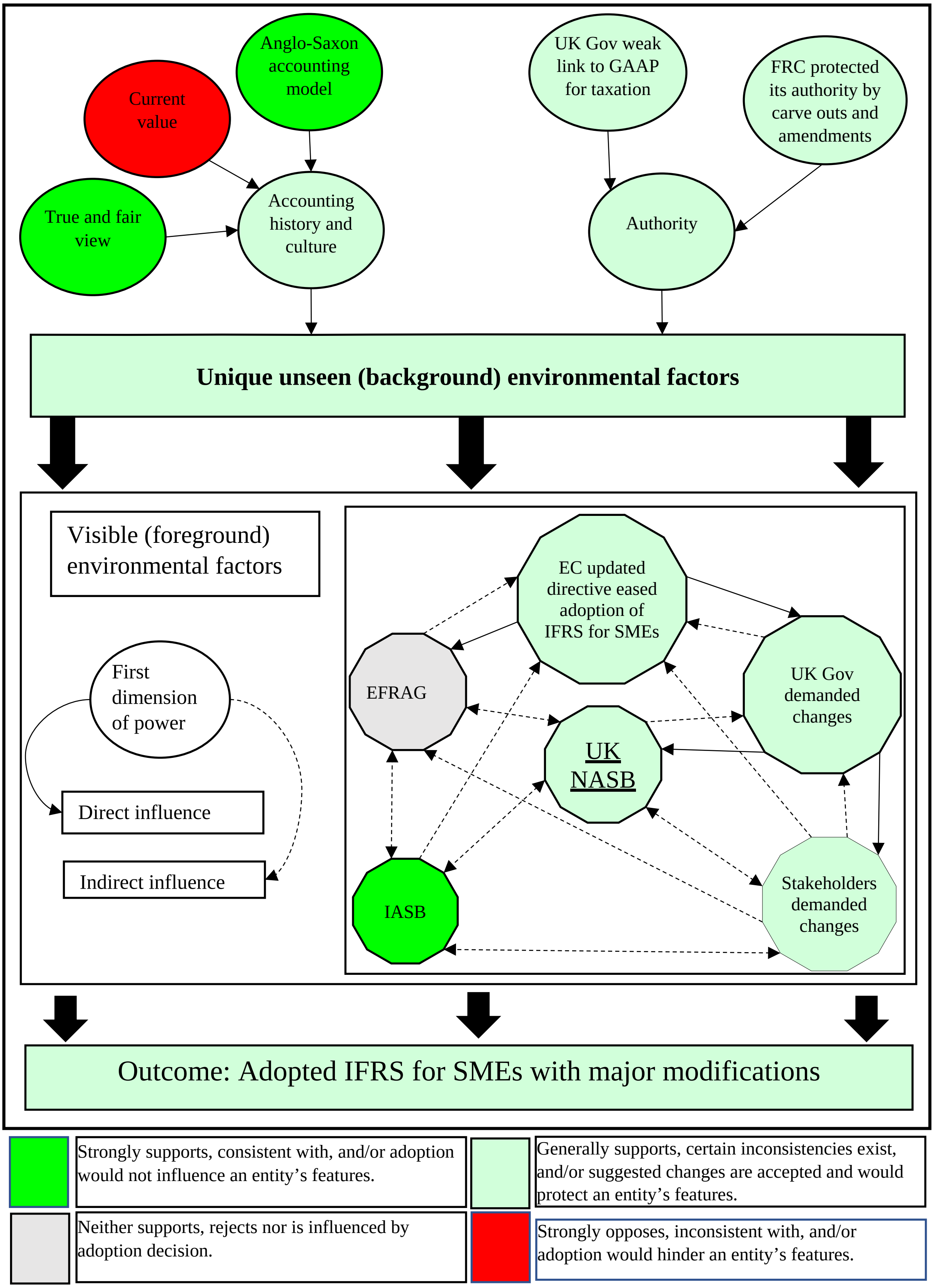

Figure 7.1: developed theoretical framework based on empirical findings for the UK

Source: Author's own work

The UK government was the second most influential entity as a result of its explicit and direct influence over the UK NASB because the latter had to adhere to and comply with the UK's companies acts. However, the UK government was not directly involved in the UK NASB's decision-making process because it had relinquished its authoritative power to the latter; instead, it was indirectly involved as a result of its status as an observer. The UK government's indirect involvement meant that its relationship with the UK NASB was flexible because the latter was able to request changes or modifications to the UK's companies acts which it believed were needed to allow certain accounting changes, and in some cases the government complied. Furthermore, since national stakeholders had to comply with two different sets of rules issued by the FRC for financial reporting purposes and HMRC for tax purposes, UK tax regulations were weakly linked to national accounting standards. This weak linkage meant that adoption of IFRS for SMEs as issued by the IASB was impossible because the FRC would have to make certain adjustments, including to derivatives and hedge accounting treatments, in order to comply with the UK's tax system. This suggests that although the UK government permitted adoption of IFRS for SMEs, changes were needed to allow such a move because the standard was not identical to the UK's companies acts. The UK government is therefore represented in light green rather than dark green in Figure 7.1.

However, the UK government was not the only authoritative entity with which the UK NASB has to comply; it also had to comply with the EC. Since the EC has significant influential power over all EU governments, it also has substantial power over NASBs because all EC directives must be incorporated into national accounting standards, making it the most influential entity over their decision-making processes. Unlike the case of IFRS adoption in the EU, the EC did not dominate the UK NASB's decision-making process in the case of IFRS for SMEs because the standard was not endorsed. However, during early stages of the adoption process, in order for the FRC to comply with the EC's Fourth and Seventh Directives, certain changes, including to negative goodwill, were needed due to inconsistencies between the directives and the standard. However, in 2013 the EC updated the Fourth Directive, eliminating many inconsistencies between it and IFRS for SMEs and hence easing adoption of the standard. Although a few of the FRC's modifications were made to comply with the EC directives, inconsistencies between the standard and the directives were not considered roadblocks, since the UK adopted the standard with modifications and complied with the EC. Nevertheless, since a few inconsistencies between the standard and the Fourth Directive remain, adoption of IFRS for SMEs as issued by the IASB is impossible in the EU; thus, the EC is represented in light green rather than dark green in Figure 7.1. These entities were identified by the theoretical framework of this study as relevant and important to understanding the UK NASB's decision-making process, and their level of influence was captured through the framework's first dimension of power. Since no entity dominated the process, other components of the framework were also deemed significant to understanding the phenomenon under investigation, including accounting history and culture.

For decades, the UK has been setting its own accounting regulations, which have a long tradition of using the "true and fair view". Since incorporation of this phrase into the UK's 1948 Companies Act, it has been widely used in many of the UK NASB's accounting standards, indicating its importance. When the EC mandated adoption of IFRS in 2002, the UK NASB suggested that adopting these standards did not hinder the UK's long history of the "true and fair view" because IFRS's "fair presentation" is equivalent to the UK's "true and fair view". This suggests that adopting IFRS for SMEs was possible because it did not hinder the UK's long history of the "true and fair view", as well as because IFRS's "fair presentation" was used and exists in IFRS for SMEs.

Furthermore, in 1990 the ASC, the UK's former NASB, was reformed and the ASB was formed and modelled based on the US FASB, in order to enhance the board's independence from the accounting profession. This meant that the ASB was proximate to the Anglo-Saxon accounting model. The IASB's Anglo-Saxon accounting model was deemed significant because it caused the IASB's accounting standards to be closer to other countries with an Anglo-Saxon accounting model, including the UK. Also, the UK NASB often directly participates in and provides support for the IASB's process of issuing accounting standards, and since the IASB's headquarters is in London, its standards, including IFRS for SMEs, are proximate to the UK's accounting history and culture. Such proximity meant that the standard was similar but not identical to previous UK GAAP; for instance, the former prohibited accounting options such as revaluation of long-term assets that were deemed historically and culturally acceptable. The FRC had to reintroduce these accounting treatments prior to the UK's endorsement of the standard, meaning that the UK's accounting history and culture were similar but not identical to IFRS for SMEs. These factors are therefore represented in light green rather than dark green in Figure 7.1.

In addition to national accounting history and culture and the coercive first dimension of power, authority was also deemed to be a relevant component of the theoretical framework, because endorsing accounting standards other than those developed or created oneself means that another entity dictates national accounting regulations, indicating loss of authoritative power.

The UK's long history of setting its own regulations and rules meant that adopting IFRS for SMEs as issued by the IASB would hamper regulators' authority because they would have to give up this task to another entity. Although the UK government relinquished its authority to the UK's NASB, adoption of the standard as issued by the IASB meant that the UK's NASB would lose its role as a regulator and would be reduced to a mere mediator between UK entities and the IASB. It would also have meant that the UK government would have to surrender its legislative power to the IASB, which would be hard to manage because it is subject to lobbying by many entities, rather than an entity that can easily oversee and observe. The UK NASB's authority derives from the government having relinquished this feature, meaning it is not self-generated. In order to overcome these issues, the FRC followed the EC's approach and protected its authoritative power by adopting the standard with carve-outs, as well as introducing many and frequent changes, including renaming it to FRS 102 prior to its endorsement in 2015. Based on the theoretical framework of this study, since a single entity or factor did not dominate the UK NASB's decision-making process, the findings suggest that visible and unseen environmental factors generally supported its adoption of IFRS for SMEs and it is therefore represented in light green. These factors were not identical to the standard because there were obstacles and inconsistencies among them, which prevents its representation in dark green. This explains the reasons for the major modifications introduced prior to the standard's endorsement, as shown in Figure 7.1.

The next section discusses the version of the theoretical framework for Germany based on the findings of this study.

7.4 Version of the theoretical framework for Germany

Despite the influence of similar visible and unseen environmental factors on the UK's and Germany's behaviour toward IFRS for SMEs, the latter did not adopt the standard as issued by the IASB nor with modifications. According to the theoretical framework of this study, visible environmental factors included the coercive first dimension of power, which captures relevant influential entities such as the EC, the Ministry of Justice, the ASCG and German SMEs. Although the ASCG is the German NASB, its role is only advisory to the Ministry of Justice, meaning the latter is the final decision maker with regard to national GAAP and tax legislation. The Ministry of Justice's involvement in the ASCG's decision-making process is limited because the former is allowed to take totally different decisions from those proposed or suggested by the ASCG. In order for the ASCG's suggestions or proposals to be considered, they must comply with and adhere to German legislation, and once the Ministry of Justice confirms their compliance, it publishes them in the Federal Gazette. Publication of the ASCG's standards does not make them authoritative or compulsory; rather, entities are advised to comply with them because doing so means that their financial statements are taken as complying with national GAAP. Since the Ministry of Justice is responsible for issuing and maintaining national GAAP and tax legislation, SMEs quickly lobbied it and strongly opposed consideration or incorporation of IFRS for SMEs when it was issued in 2009. Their demands were catered to because the government tends to protect them. One explanation for German SMEs' strong opposition to the standard was their cautiousness. As a result of their disapproval, they are represented in dark red in Figure 7.2.

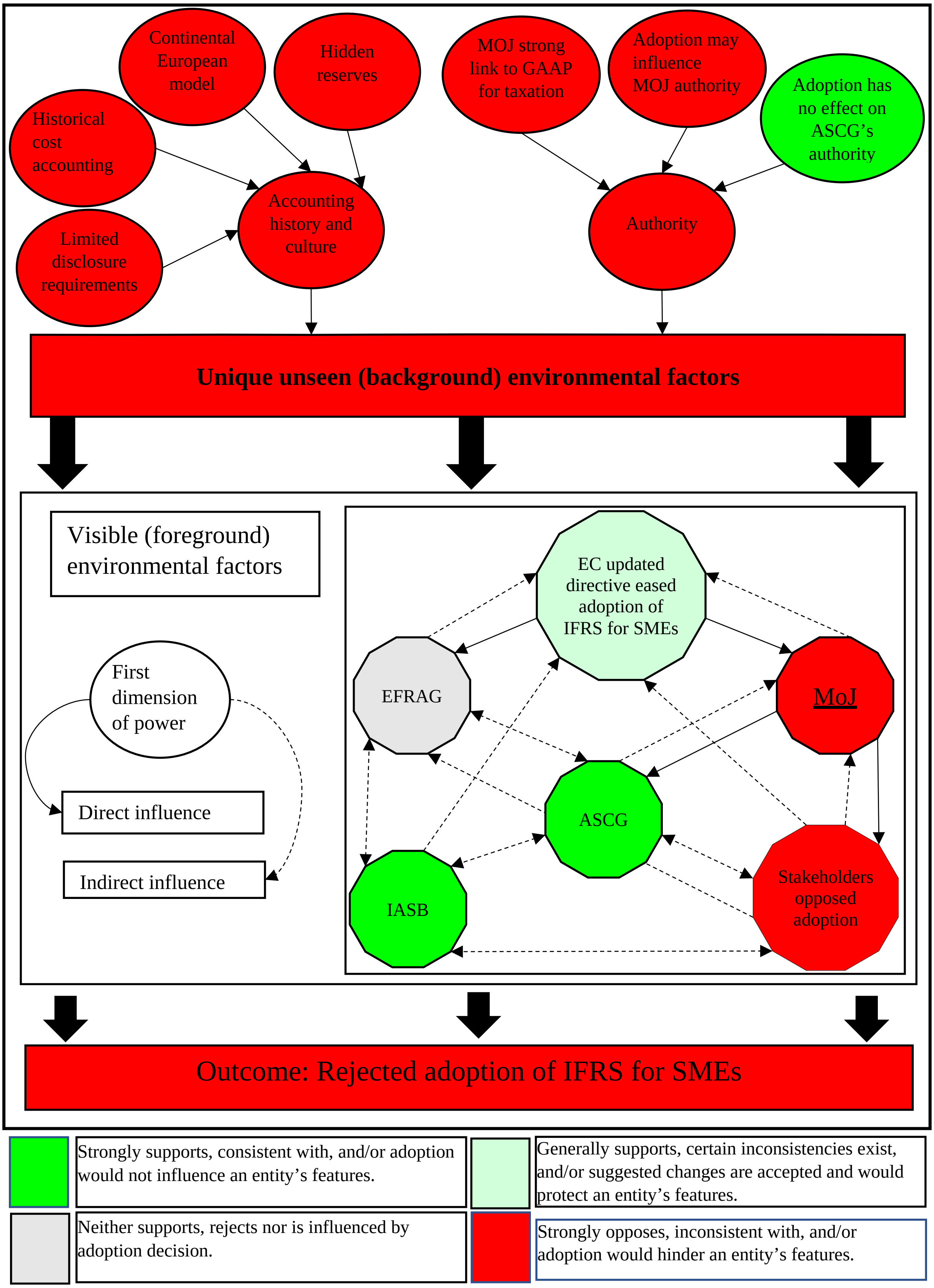

Figure 7.2: developed theoretical framework based on empirical findings for Germany

Source: Author's own work

However, unlike German SMEs, the ASCG had a different perception and view of the standard. It often supported and participated in the IASB's development of IFRS for SMEs in order to promote German SMEs' view in case the EC or the Ministry of Justice endorsed it. This was because the ASCG perceived that the standard's adoption would be useful for German SMEs, which led it to call for its endorsement in the EU and to substitute it for German tax legislation and national GAAP. The theoretical framework of this study incorporates and highlights the relevance of entities' authority, which offers another explanation for the ASCG's behaviour. Since the ASCG's role is only as an advisor rather than a decision maker, replacing the national GAAP and tax system with IFRS for SMEs would not have reduced its authoritative power because it does not have any such power. As a result of its strong support, the ASCG is therefore represented in dark green in Figure 7.2. However, in 2010 the EC concluded that IFRS for SMEs would not be endorsed in the EU, which caused the ASCG to focus less strongly on it, because it would be working on a standard knowing that it would not be mandated. This suggests that, owing to the ASCG's lack of authority, it was hoping that the EC would mandate adoption of the standard, because without the latter's involvement this would be unlikely to occur. Thus, the EC did not dominate Germany's decision with regard to IFRS for SMEs, unlike the case of IFRS.

Contrary to the UK government, which had surrendered its authority over national accounting standards to the FRC, the Ministry of Justice was reluctant to do so because this would have negative consequences owing to, for instance, the strong link between the German tax system and national GAAP. This strong link meant that in order for that the Ministry of Justice to adopt IFRS for SMEs, it would have to overhaul its tax system or follow the UK's approach and weaken the link. These options were deemed unsuitable because they were considered costly, complicated and unappealing. Weakening the link between taxation and national GAAP would mean that German SMEs would have to understand and adhere to two different sets of rules for taxation and financial reporting purposes, rather than a single set, which was considered costly and unattractive. Adopting IFRS for SMEs for tax purposes would also have been costly and complicated for the Ministry of Justice because it would have to retrain its IRS in accordance with the standard, and above all it would hamper its authoritative power over tax legislation. Consequently, authority and the Ministry of Justice are represented in dark red in Figure 7.2.

Although the coercive first dimension of power and authority influenced Germany's behaviour toward IFRS for SMEs, its accounting history and culture also influenced the final outcome. In Germany, during the 1870s and 1920s, two crises occurred that were attributed to use of fair value measurements. As a result, use of fair value was prohibited and historical cost accounting was reintroduced, which allowed hidden reserves. However, the IASB's Anglo-Saxon accounting model means that its accounting standards, including IFRS for SMEs, support the use of fair value measurement, transparency and detailed disclosure. These features are not compatible with Germany's historically and culturally embedded accounting traditions, including the creation of hidden reserves and minimal disclosure. Also, Germany's Continental European accounting model differs from the IASB's Anglo-Saxon accounting model because the former emphasises taxation and creditors while the latter informs and concentrates on investors. Therefore, Germany's behaviour toward IFRS for SMEs was not dominated by a single entity or factor, but rather by many interrelated visible and unseen environmental factors that were inconsistent with the standard, so the overall colour of the framework is shown in dark red in Figure 7.2.

The next section discusses the Netherland's version of the theoretical framework based on the findings of this study.

7.5 Version of the theoretical framework for the Netherlands

In the case of the Netherlands, the Dutch government, the EC and national stakeholders were deemed influential entities relevant to understanding the DASB's behaviour toward IFRS for SMEs. Dutch stakeholders were deemed a significant entity because they directly and indirectly influenced the DASB's decision-making process. This is because their representatives are part of the board and they are able to submit comment letters during the consultation stage or at any time if they wish to raise concerns. The lack of comments submitted to the DASB and the findings of this study suggest that national stakeholders had no appetite or support for IFRS for SMEs because they were satisfied with their national GAAP, leading to their representation in dark red in Figure 7.3.

Unlike the German Federal Ministry of Justice, the Dutch government is indirectly involved with the DASB decision-making process as a result of its status as an observer. However, since the Dutch government depends heavily on national GAAP for tax purposes, meaning they are strongly linked, for reasons similar to those of the German Federal Ministry of Justice, including costliness and authority, adopting IFRS for SMEs was deemed burdensome. For instance, the Dutch government would have had to change its tax system and relinquish its authoritative power to the IASB. Also, adopting IFRS for SMEs would mean that the Dutch government would not be able to observe and oversee the IASB to ensure that the standard was in accordance with national legislation. This is because the Dutch government plays no direct role in the IASB's decision-making process, unlike its explicit and direct authority over the DASB because the latter is required to comply with the former's laws and regulations. The Dutch government is thus represented in dark red in Figure 7.3.

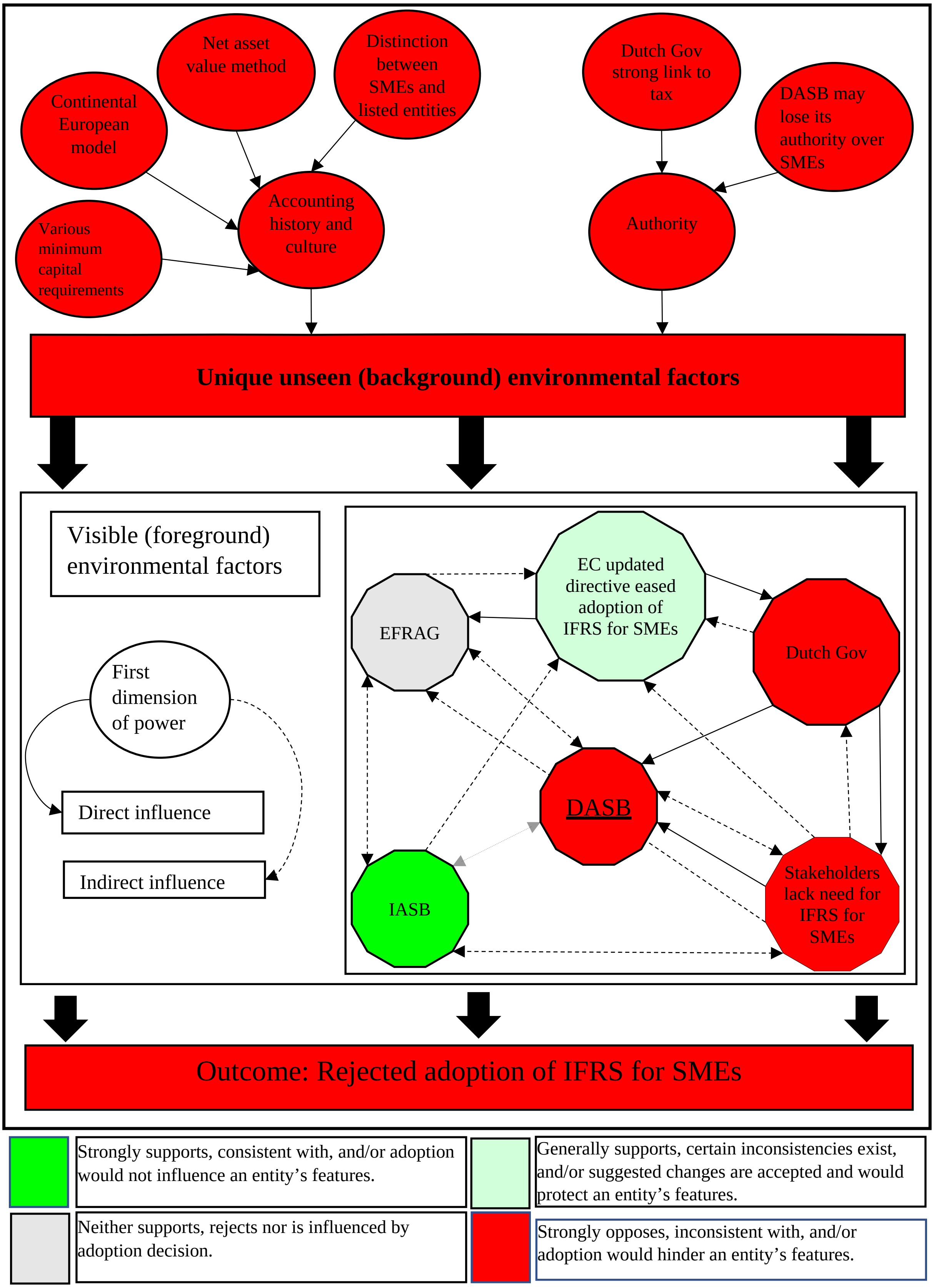

Figure 7.3: developed theoretical framework based on empirical findings for the Netherlands

Source: Author's own work

Although the ASCG supported adoption of IFRS for SMEs and argued that inconsistencies between the standard and the EC directives were minor and should not prevent the standard's adoption, the DASB thought otherwise. Since the DASB had to comply with the EC directives, it argued that the inconsistencies highlighted by EFRAG were incomplete and that they were a roadblock to endorsement of IFRS for SMEs. Although the EC did not dominate the decision-making process because the standard was not endorsed in the EU, the directives were used as a technical excuse to argue against its adoption. However, in 2013 the EC updated the Fourth Directive, which removed some but not all inconsistencies, making adoption of IFRS for SMEs easier, yet the DASB did not make such a move. One explanation for the DASB's reluctance to adopt the standard was its fear of losing the remainder of its authoritative power, because such a move would have meant it becoming a mediator for the IASB, so adoption would have negatively influenced it, unlike the ASCG. As a result of the DASB's behaviour toward IFRS for SMEs, it is represented in dark red in Figure 7.3. Also, the DASB's and the Dutch government's authority would be negatively affected by the standard's adoption, so these are also represented in dark red in Figure 7.3.

In addition to the relevance of these factors in the theoretical framework, national history and culture are also relevant. The Netherlands has a long history and tradition of setting its own laws and regulations, including accounting standards. A particular feature of Dutch accounting history and culture is segregation between SMEs and listed entities. Also, since the Dutch tax system is strongly linked to national GAAP, the latter is strongly oriented toward the Continental European accounting model. These features differ significantly from the IASB's Anglo-Saxon accounting model because, for instance, the IASB only weakly distinguish between listed entities and SMEs, since IFRS for SMEs was modelled on the conceptual framework and standards of IFRS. In other words, rather than creating a new standard using a bottom-up approach, based on and tailored to SMEs' and their users' needs, the IASB assumed that these entities have similar needs and uses of financial statements to publicly listed companies, and instead adopted a top-down approach. These inconsistencies led the standard to differ from historically and culturally accepted accounting traditions, so they are represented in dark red in Figure 7.3. Thus, unlike the Netherlands' adoption of IFRS, which was due to the influence of the EC and can be explained by the coercive first dimension of power, its rejection of IFRS for SMEs was due to the standard's lack of approval and inconsistencies, with many interrelated visible and unseen environmental factors, as shown in the overall red colour of Figure 7.3.

The next section discusses the version of the theoretical framework for Italy based on the findings of this study.

7.6 Version of the theoretical framework for Italy

In Italy, unlike the case of IFRS adoption, IFRS for SMEs was not rejected as a result of a single factor or entity; rather, multiple interrelated entities and factors caused the outcome. Similarly to the Netherlands, Italian stakeholders are able to directly and indirectly influence the OIC's decision-making process because they are offered opportunities to provide comment letters and are represented on the board. The lack of publicly available documents to indicate that Italian stakeholders demanded or supported adoption of IFRS for SMEs and the findings of this study suggest that it was not called for or preferred because they were satisfied with national GAAP. As a result, they are represented in dark red in Figure 7.4. One explanation for their satisfaction is that national GAAP is strongly linked to the Italian tax system, so they are required to comply with a single set of rules for taxation and financial reporting purposes. This is because the OIC must adhere to and comply with the Italian government's laws and regulations meaning the latter has explicit and direct authority over the former. In order to ensure the OIC's compliance, the Italian government is entitled to attend its meetings as an observer.

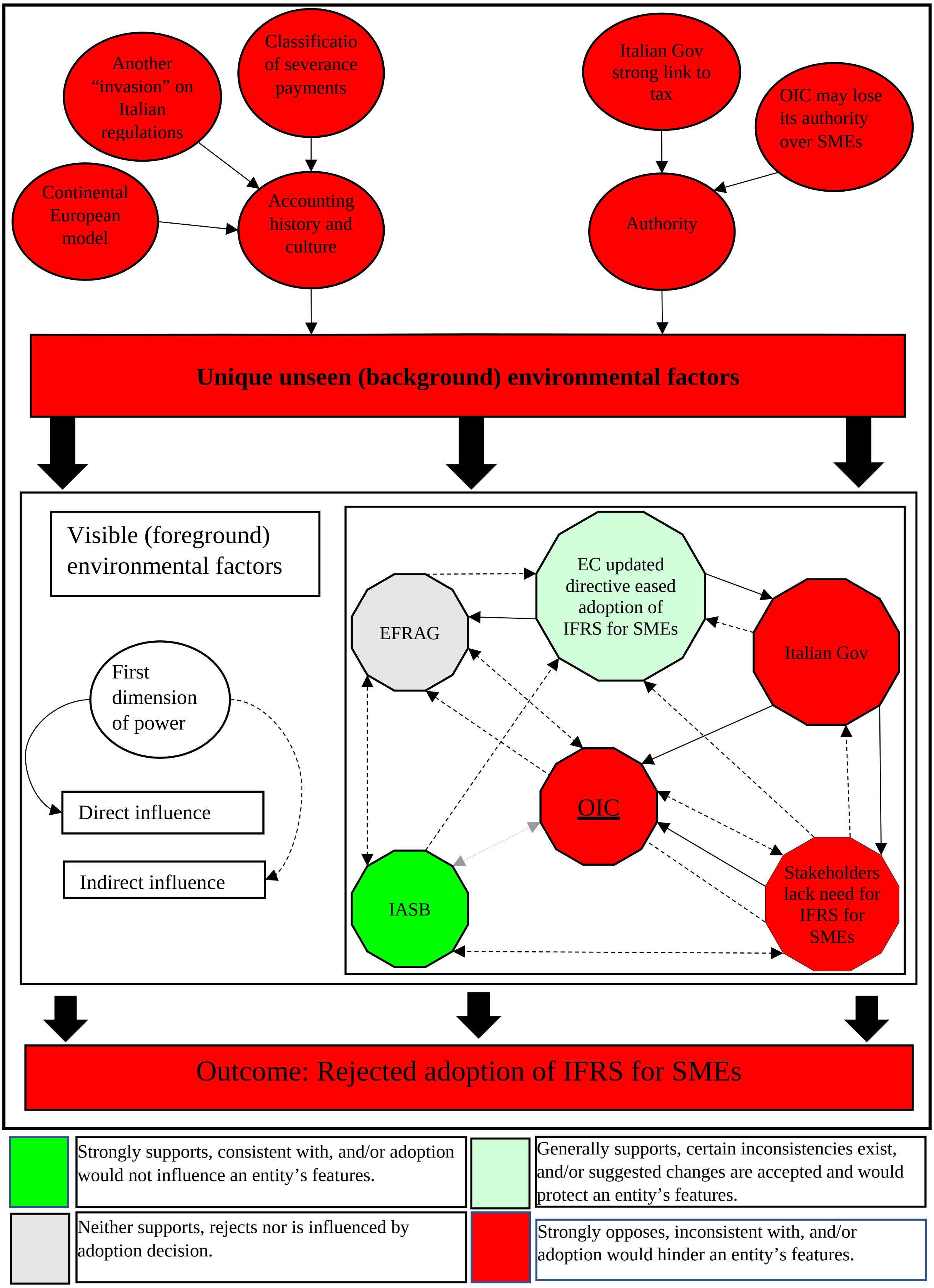

Figure 7.4: developed theoretical framework based on empirical findings for Italy

Source: Author's own work

Similarly to the Dutch government, the Italian government's dependence on national GAAP for tax purposes provides an explanation for its observer status and annually mandated reports because, for instance, adopting IFRS for SMEs would require tax regulations to be overhauled or would weaken reliance on national GAAP. These solutions were considered unsuitable because they would be costly and unjustifiable. Also, adopting the standard would mean that the Italian government would lose its authority over its tax regulations, meaning that the IASB, an overseas entity located in London, would determine and regulate such important legislation. The Italian government did not support such an approach, and is therefore represented in dark red in Figure 7.4.

Similarly to the DASB, the OIC perceived inconsistencies between the EC directives and IFRS for SMEs as a roadblock and a reason for its rejection in the EU and Italy. The EC directives were deemed a technical excuse because the EC had updated the Fourth Directive, eliminating many but not all inconsistencies, suggesting that the EC did not dominate Italy's behaviour toward the standard. Despite the updated directive easing adoption of IFRS for SMEs, the OIC did not call for its adoption. Based on the theoretical framework of this study, the OIC's authoritative power partially explains its resistance and reluctance to adopt the standard, because doing so would cause it to lose its recently acquired authoritative power, dragging it backward by turning it into an advisor or intermediary between national entities and the IASB. Owing to its behaviour toward the standard, the OIC is represented in dark red in Figure 7.4.

The theoretical framework also reveals Italian national history and culture to be relevant factors that explain Italy's behaviour toward IFRS for SMEs. Italy is known for its long history of writing its own rules and regulations, and a fundamental feature of its historical and cultural accounting traditions is its severance payments. These payments are recognised by Italian law, meaning that all companies must recognise and record them. Adopting IFRS for SMEs would change the accounting recognition of service payments into pension benefits, which would be very complicated and costly. In other words, the standard's adoption would require every company, regardless of size, to use this complex accounting treatment, because service payments are part of Italian law. Also, since Italy's strong link between taxation and national GAAP suggests that it is oriented toward the Continental European accounting model, the IASB's Anglo-Saxon accounting model was considered a significant disadvantage because the former focuses on taxation and is geared toward informing creditors, while the latter focuses on providing information for investors. Thus, IFRS for SMEs differed significantly from Italy's national accounting history and culture, so these factors are represented in dark red in Figure 7.4. Since the standard was neither called for nor similar to the OIC's visible and unseen environmental factors, its rejection was due to these interrelated factors rather than the domination of a single entity or factor, as shown by the overall dark red of Figure 7.4.

Although the developed theoretical frameworks for the Netherlands and Italy are broadly similar, they cannot be combined into a single framework because different visible and unseen environmental factors influenced these jurisdictions' behaviour toward IFRS for SMEs. For instance, in the case of the Netherlands, the IASB's weak distinction between SMEs and public entities was deemed culturally and historically significant, whereas in the case of Italy, inconsistencies between IFRS for SMEs and service payments were considered significant. Furthermore, although the EC was the most influential entity over governments' and NASBs' decision-making processes, since it did not mandate adoption of IFRS for SMEs, its latent power permitted other visible and unseen environmental factors to influence the financial decisions. This differs from the case of IFRS, where the EC's exercise of power is captured by the theoretical framework as the dominant reason for adopting these standards in the EU. This shows that the theoretical framework is capable of capturing different entities' latent or actual exercise of power, as well as dissimilar environmental factors that may influence similar decision-making processes. Thus, the theoretical framework helps explain NASBs' various behaviours toward IFRS for SMEs, and deepens understanding of their decision-making processes by showing the strength and influence of differing visible and unseen environmental factors that influence final outcomes in different ways.

7.7 Conclusion

In summary, governments' and NASBs' varying behaviours toward IFRS for SMEs were not mainly a result of cost–benefit analyses nor domination of a single entity such as the EC, nor can they be explained by a single factor such as the coercive first dimension of power. Unlike the EU's adoption of IFRS, since the EC did not mandate adoption of IFRS for SMEs, its latent power allowed many interrelated visible and unseen environmental factors to influence and cause such variations. These factors played different roles, and had differing levels of influence and varying characteristics in each jurisdiction.

They are therefore key to gaining a deeper understanding of governments' and NASBs' behaviours and decision-making processes, yet have been overlooked with regard to the various behaviours toward IFRS for SMEs in the EU. However, the interviewees presented their own views of their institutions' decision-making processes as a result of close involvement, so these findings cannot be empirically generalised. According to the MRT approach, the findings provide valuable flesh for the skeletal theoretical framework, showing that it is capable of providing a deeper understanding of NASBs' decision-making processes, and can be used to examine other related accounting phenomena, in that they offer theoretical rather than empirical generalisations. The next chapter concludes this thesis by discussing the contributions and limitations of this study and making suggestions for future research.

Chapter 8: Conclusions

8.1 Introduction

The aim of this study was to investigate NASBs' decision-making processes with regard to IFRS for SMEs. EU jurisdictions' behaviours toward the standard varied, even though they are all obliged to comply with the EC's accounting directives. This study examined the reasons for the diverse behaviours of the UK, Germany, the Netherlands and Italy toward the standard, using it as a vehicle to gain a deeper understanding of their processes, and of how and what entities and factors influenced the final outcomes. The skeletal theoretical framework, based on previous literature, highlighted the existence of general patterns with regard to NASBs' decision-making processes, but did not explain the complexity of interrelated factors influencing the adoption or non-adoption of IFRS for SMEs. The findings, on the other hand, added needed meat on the bones of the skeletal theoretical framework and explained the complexity of these decisions.

Section 8.2 explains the contributions of this study, and Sections 8.3 to 8.5 discuss its limitations, implications, and suggest areas for future research respectively.

8.2 Contributions

This study makes both theoretical and practical contributions, as discussed in the next sub-sections.

8.2.1 Theoretical contributions

Laughlin's (1995, 2004, 2007) MRT approach permits preliminary understanding of phenomena based on previous literature. Laughlin describes the MRT approach as a method to "flesh out" a theoretical "skeleton". The "skeletal" theory may indicate the existence of general patterns, and empirical evidence is then needed to substantiate and make the theory more meaningful. In other words, the skeletal framework offers a language through which to understand the empirical findings, and the findings validate and help develop the skeletal theory.

Although institutional theory provides a useful theoretical lens through which to explore and understand the phenomenon under investigation, it has been criticised for its oversimplified recognition of legitimacy (e.g. Dart 2004; Phillips and Malhotra 2008; Scott 2008) and weak consideration of power (e.g. Cloutier and Langley 2013). Dillard et al. (2004) suggest that incorporating structuration theory into institutional theory enabled them to mitigate institutional theory's limitations and led to a better articulation of the phenomenon they investigated. In a similar approach, this study incorporates theories of power and legitimacy into institutional theory to enable a deeper understanding of NASBs' decision making processes.

In this study, a power theory, more specifically Lukes's (1974, 1977, 2005) work on power including his three dimensions of power, is used to articulate how coercive pressure has various dimensions depending on the implicit or explicit power an individual, entity or group of entities has over agenda items and decision-making processes. The use of such power may, for instance, permit or prohibit different actors' participation in NASBs' decision-making processes. Legitimacy theory, more specifically Suchman's (1995) different types of legitimacy, is used to articulate how different types of legitimacy may influence an NASB's tolerance of or compliance with various environmental factors. Moreover, an NASB's perception of their authority and national accounting history and culture form an important part of the skeletal theoretical framework of this study because these factors help further explain and understand NASBs' decision-making processes and their behaviour. Thus, the theoretical framework of this study proposes a social-theory-based framework for expanding institutional theory to better articulate institutionalisation processes.

The findings of this study enriched its skeletal theoretical framework with empirical evidence that explains how and to what extent the identified relevant parts of the framework influenced EU NASBs' decision-making processes and behaviours toward IFRS for SMEs. The findings of this study strongly suggest the importance and relevance of coercive first dimension of power to understand the phenomenon under investigation. This is owing to NASBs decision-making processes cannot be classified as a "mixed power system" as they must comply with EC directives, national governments, and national stakeholders, respectively. That is, NASBs tolerance and compliance with these actors differed depending on their acquisition level and exercise of power. The coercive second dimension of power was only relevant in the case of the UK because the perception of the UK NASB's chair influenced, and to some extent dominated, some stages of the decision-making process. Moreover, the findings suggest that NASBs' perceptions of their authority influenced their decision-making processes and behaviour toward IFRS for SMEs. Because they often only regulate national accounting standards, they thought to protect the reminder of their authority by rejecting the standard or modifying it prior to its adoption. In other words, adopting IFRS for SMEs, as issued by the IASB, would reduce them to mere mediators between their national stakeholders and the IASB.

Since EU jurisdictions' national accounting history and culture differ significantly, the findings of this study also suggest that such differences further explain governments' and NASBs' varying behaviours toward IFRS for SMEs. Because these historically and culturally accepted accounting treatments indirectly mandated certain changes or led to rejection of the standard.

Even though the findings of this study suggest the relevance and importance of coercive first dimension of power, authority, accounting history and culture, and the second dimension of power in the case of the UK, they provided little support for the relevance of the third dimension of power, mimetic and normative dimensions of pragmatic, moral and cognitive legitimacy, because they did not help explain the data gathered. However, despite these parts of the theoretical framework being deemed less important in this study, they should not be excluded from the framework. Rather, they indicate that the framework has the capacity to explain more complicated issues which have not been discussed in this study. Thus, the expansion of institutional theory based on the findings and theoretical framework of this study enables it to better articulate political and socio-economic contexts and further addresses the dynamics of enacting, embedding and changing organisational processes.

8.2.2 Practical contributions

This study makes several practical contributions in addition to the theoretical contributions discussed above. Kaya and Koch (2015) and Saucke (2015) have argued that jurisdictions' behaviour toward IFRS for SMEs was based on cost–benefit analysis because they focused mainly on these issues, meaning their results were influenced mainly by perceived costs and benefits. Also, they have argued that EU countries were unlikely to adopt the standard, or at most would adopt but greatly modify it, because the EC opposed it owing to its inconsistencies with its directives. However, the findings suggest that, although the EC exerted a significant influence on EU jurisdictions, it was not the main reason for their differing responses to IFRS for SMEs, because the updated version of the Fourth Directive 2013/34/EU eliminated the vast majority of incompatibilities between the standard and the directive. Governments and NASBs had varying perceptions, and although they were influenced by similar environmental factors, these factors varied in nature. Interviewees and publicly available documents revealed the complexity of adoption and non-adoption decisions, because many entities and factors influenced the final outcomes. This indicates that the decisions were not based solely on cost–benefit analyses, but rather on various interrelated visible and unseen environmental factors.

The IASB argued that a key advantage of adopting IFRS for SMEs was harmonisation of SMEs' accounting standards. Scholars (Aboagye-Otchere and Agbeibor 2012; Bartůňková 2013; Hoxha 2014; Buculescu and Dutescu 2018; Sellami and Gafsi 2018) have argued that, in developing countries, harmonisation of SMEs' accounting regulations is not seen as a benefit because SMEs generally do not seek international investors or foreign markets. Similarly, this study has revealed similar perceptions by NASBs, further extending the current literature by illustrating that NASBs in developed countries, including Germany, Italy and the Netherlands, believe that their national SMEs would not benefit from harmonising accounting regulations because the standard would only benefit medium-sized entities. Thus, developed countries also do not see significant benefits from harmonising some SMEs' accounting regulations or adopting IFRS for SMEs.

The UK and Ireland are the only EU jurisdictions that have adopted IFRS for SMEs with major modifications. The findings of this study extend previous literature by explaining what caused these major modifications. Some of the early modifications were due partly to the EC, but were also influenced by the ASB's environment. However, later modifications of the standard were introduced to preserve the UK's historical and cultural accounting traditions, including the introduction of revaluation of long-term assets. The findings show that even if jurisdictions adopt IFRS for SMEs, SMEs' financial statements may differ nationally and internationally. The UK modified the standard prior to its adoption in order to make it fit with its environment. If other jurisdictions also do so, this will lead to different versions of IFRS for SMEs. Thus, it is difficult to harmonise SMEs' financial statements, and the process is theoretical rather than empirical, as was the case for IFRS.

Many advantages of the standard's adoption were attributed to its shared conceptual framework with IFRS, including ease of SMEs' transition to public companies. This finding suggests that many advantages of IFRS for SMEs were not based on features of the standard *per se*, but rather on its closeness to IFRS, so if a jurisdiction has not adopted IFRS, it is unlikely to adopt IFRS for SMEs. Therefore, if governments and NASBs have not evaluated their national accounting regulations and the standard prior to their decisions, they should do so in order to better assess the standard's usefulness in their jurisdictions.

8.3 Limitations

This study was conducted using a qualitative approach due to its appropriateness for examining social phenomena. NASBs are similar to other entities, in that their decision-making processes are social phenomena. Despite a well-designed research plan based on previous literature, this study unavoidably has several limitations.

The first limitation is generalisability. A qualitative approach was adopted because it is a preferred method when investigating questions relating to how social experience is created (Denzin and Lincoln 2000), whereas quantitative studies are seldom able to capture participants' perceptions because they tend to rely on remote, inferential empirical methods rather than engaging closely with participants (Denzin and Lincoln 2000). However, semi-structured interviews capture only interviewees' personal perceptions, limiting their generalisation because these perceptions may not be representative of their organisations. Thus, interviewees' responses in this study represented their own views of their organisations' decision-making processes as a result of their close involvement with their organisations and their external environment. Nevertheless, this rich data, including interviews with former and current board members and analysis of publicly available documents, provides internal validity for the findings on NASBs' decision-making processes.

The second limitation of this study relates to the use of IFRS for SMEs as a case study to investigate EU NASBs' decision-making processes. Scholars have criticised case studies for their lack of empirical generalisability. Since this research used a case study approach, it cannot claim generalisability of the results to other NASBs not discussed in this study, because they may have been influenced by other factors not deemed relevant to this study, such as involvement by the World Bank. Yet despite the potentially limited empirical generalisability of the findings, the study's contribution to understanding NASBs' decision-making processes should not be ignored since it has theoretical generalisability (see Sub-section 8.2.1) and makes empirical contributions (see Sub-section 8.2.2). The value of IFRS for SMEs as a case study lies in its consideration to change national accounting regulations. This indicates the standard's importance and suggests that its adoption or non-adoption was influenced by visible and unseen environmental factors relating to governments and NASBs. Investigation of EU jurisdictions' behaviour toward the standard offers an illustrative example of the influence of these factors and various entities on the decision-making process, showing the complexity of both this process and the issuance of accounting regulations.

The third limitation of this study is that it was sometimes difficult to obtain secondary data to validate interviewees' responses because data were not publicly available or had never been produced. In the case of Germany, the ASCG had received many comment letters, but these were not publicly available. After requesting these letters, it turned out that they had been lost owing to changes to the ASCG's website. In Italy and the Netherlands, the NASBs never requested any comment letters from their external stakeholders, so publicly available documents were limited. However, this study referred to previous literature to minimise this issue.

The fourth limitation relates to time issues. Limited time was a major obstacle because field work requires a vast amount of time and preparation. NASBs rarely agreed to participate, and often did not have time for follow-up interviews. However, this study had to be conducted within a specific time frame, and the interviews were conducted within six months to provide sufficient time to properly analyse the data. Another issue relating to time was that this study investigated IFRS for SMEs nine years after its publication and discussion in the EU. Thus, interviewees may have forgotten some issues or may have lacked interest in discussing this topic, since it was no longer being discussed within the EU. However, the EC is slowly amending the Fourth Directive and bringing it closer to IFRS for SMEs. Many incompatibilities have been removed, suggesting that this issue may resurface in the near future as a result of the EC's 2020 Vision of harmonising EU SMEs' accounting regulations.

The final limitation of this study relates to the nature of interviews. In some cases, the interview sessions were short due to interviewees' busy schedules, so not all interviewees were asked every prepared question. In addition, the nature of semi-structured interviews means that the flow of each interview and the issues discussed may differ based on interviewees' perceptions and positions in their organisations; thus, they may not have had an answer for each question asked. The quality of digital records also varied significantly. For example, one interview was conducted in a restaurant, with background noise on the recording that caused some difficulty in the later transcription. In the case of telephone calls, interviewees sometimes had a bad signal that caused the line to drop for a few seconds or made their voices unclear. To minimise this issue, detailed notes were taken along with the audio-recordings, and clarifications were requested in cases of loss of signal or unclear voices. Interview transcripts were also sent to the interviewees to minimise transcription errors and offer them a chance to provide any further feedback.

8.4 Implications of the study

The findings of this study have several important implications for NASBs. Investigations of IFRS adoption or non-adoption indicate that many entities influenced the final outcome, including the EC (Burlaud and Colasse 2011) and various other factors, such as authority (e.g. Hail et al. 2010; Zeff 2010; Cox 2014; Krishnan 2016; Van Mourik and Walton 2018), history and culture (e.g. Mir and Rahaman 2005; Ramanna 2013; Degos et al. 2018). This examination of the adoption or non-adoption of IFRS for SMEs in the EU indicates the existence of similar factors.

Investigating the UK's adoption of IFRS for SMEs with major modifications, and rejection of the standard by Germany, the Netherlands and Italy has also shed light on the influence of their external environments on their final decisions. Each jurisdiction has its own national stakeholders with various levels of influence, and governments with different levels of dependence on national GAAP for tax purposes. Understanding these national differences would be beneficial for many entities including the IASB.

The IASB would benefit from this study by understanding how NASBs perceived its IFRS for SMEs standard, since this study has investigated the advantages and disadvantages of the standard's adoption. It might consider these issues in its triennial revision in order to make adoption more appealing to EU jurisdictions. It should reconsider its assumptions that adoption of IFRS for SMEs will lead to harmonisation of SMEs' financial reporting and that their needs are similar to those of public companies. It should also minimise the standard's extensive disclosure requirements and burdensome complexity. In doing so, it might use the EC's 2020 Vision to harmonise SMEs' accounting regulations and lobby it to mandate the standard's adoption in the EU.

Of relevance to jurisdictions considering adoption of the standard, such as Norway, this study shows the influence on adoption decisions of visible factors such as national stakeholders and governments, and unseen factors such as authority, history and culture environmental factors. These environmental factors should be considered prior to taking the final decision, because failure to do so may have negative consequences, including national stakeholders' non-compliance with adopted standards, and NASBs' loss of legitimacy or even dissolution.

Finally, stakeholders might use this study to understand how their participation influences NASBs' decision-making processes. Their comments and feedback might be relevant and might bring to light issues not considered by national boards or their technical teams, which might influence final decisions. National stakeholders often participate only if they have negative feedback, whereas the interviewees were also keen to encourage participation by those offering positive feedback, which would provide support for proposed accounting standards and help issue well-balanced accounting regulations. However, many interviewees agreed that national stakeholders may not have the necessary resources or technical experience to provide persuasive feedback, and urged NASBs to be proactive in seeking such stakeholders' opinions and simplifying discussions of issues to better assess their needs for and uses of financial statements.

8.5 Suggestions for future research

This study explored EU jurisdictions' various behaviours toward IFRS for SMEs. It investigated the influence of governments' and NASBs' external environment on adoption or non-adoption of the standard. The study's exploratory nature, fleshed out theoretical framework and investigation of the influence of visible and unseen environmental factors on the overall decision-making process provide a number of opportunities for further research.

Future research might use this study's theoretical framework to deepen understanding of decision-making by accounting regulators at various stages of their processes. This is because various visible and unseen environmental factors may influence regulators throughout their decisions to issue, adopt or not adopt accounting standards. In doing so, scholars might extend and provide further validation of the theoretical framework and gain a deeper understanding of these entities. In the case of IFRS for SMEs, future research might examine the theoretical framework in jurisdictions other than those studied here. In particular, an exploration of decisions relating to IFRS for SMEs in developing countries might produce a rich source of further evidence.

Finally, many advantages of IFRS for SMEs were deemed by interviewees to be theoretical, and thus require further empirical investigation. Future researchers might investigate the standard's advantages in greater depth in order to better inform decisions on adoption or rejection. NASBs argued that one of the main reasons for rejecting IFRS for SMEs was national SMEs' lack of appetite. This study focused only on NASBs, so future research might investigate national SMEs' perceptions of the standard in order to verify this claim.

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Appendix A: Protocol for EFRAG Interviews

1- Please describe your role and responsibilities during the planning stage and discussion period for IFRS for SMEs.

2- Please describe the process by which the decision with regard to IFRS for SMEs was made.

Prompt:

- To what extent was the government involved in the adoption decision?
- For example, the European Commission?

3- How would you describe EFRAG advise with regard to IFRS for SMEs?

4- From your perspective as a member of the EFRAG, what do you see as the three main advantages and disadvantages of implementing IFRS for SMEs?

Prompt:

- Why do you believe these advantages and disadvantages are significant?
- What about the common framework for IFRS and IFRS for SMEs?

5- From your perspective, which three key stakeholders were most important in this decision?

Prompt:

- Why do you believe these stakeholders were important?

6- During the IFRS for SMEs consultation, what views were expressed by key stakeholders?

Prompt:

- What were the key stakeholders' main concerns?
- Were there any similarities between the views of key stakeholders?
- How might the key stakeholders' concerns have been overcome or how were they overcome?
- How did the EFRAG manage any differences between key stakeholders?

7- How did you interact with the IASB and the EC?

Prompt:

- Why do you believe EFRAG dissolved its SME working group?
- What about the European Parliament specific request that EFRAG should not deal with SMEs accounting issues?

8- Please describe how key stakeholders influenced your organisation's decision.

9- Are there any decisions on this matter made by other NASBs that strike you as interesting or surprising?

Prompt:

- Why do you believe the UK and Ireland adopted IFRS for SMEs with major modifications?
- Why do you believe the FRC made frequent amendments on FRS 102 since its issuance?
- Why do you believe other EU jurisdictions have not adopted IFRS for SMEs?

10- Please explain the extent to which the decision regarding IFRS for SMEs aligned with your jurisdiction's financial reporting culture.

Prompt:

- Culture is defined as a set of shared beliefs and preferences across entities (norms).
- What about investors' protection and conservatism?

11- Were there any political factors that influenced the decision regarding IFRS for SMEs?

Prompt:

- Politics is the outcome of interested stakeholders' influence on other organisations and how these stakeholders reach their desired outcomes.
- What about the influence of the EC and the IASB?
- Does the FRC decision with regards to IFRS for SMEs have any implications on its role or position as the UK national accounting standard setter?

12- Are there any other important issues you wish to raise?

13- Can you name anyone else whom it would be useful for me to interview?

Appendix B: Protocol for NASBs Interviews

1- Please describe your role and responsibilities during the planning stage and discussion period for IFRS for SMEs.

2- Please describe the process by which the decision with regard to IFRS for SMEs was made.

Prompt:

- To what extent was the government involved in the adoption decision?

3- How would you describe the decision made in your jurisdiction with regard to IFRS for SMEs?

Prompt:

- Why do you believe the IASB's website included the UK and Ireland as IFRS for SMEs adopters?

4- From your perspective as a member of the [Name of NASB], what do you see as the three main advantages and disadvantages of implementing IFRS for SMEs?

Prompt:

- Why do you believe these advantages and disadvantages are significant?
- What about the common framework for IFRS and IFRS for SMEs?

5- From your perspective, which three key stakeholders were most important in this decision?

Prompt:

- Why do you believe these stakeholders were important?

6- During the IFRS for SMEs consultation, what views were expressed by key stakeholders?

Prompt:

- What were the key stakeholders' main concerns?
- Were there any similarities between the views of key stakeholders?
- How might the key stakeholders' concerns have been overcome or how were they overcome?
- How did the [Name of NASB] manage any differences between key stakeholders?

7- How did you interact with the IASB and the EC?

8- Please describe how key stakeholders influenced your organisation's decision.

9- Are there any decisions on this matter made by other NASBs that strike you as interesting or surprising?

Prompt:

- Why do you believe the UK and Ireland adopted IFRS for SMEs with major modifications?

- Why do you believe the FRC made frequent amendments on FRS 102 since its issuance?
- Why do you believe other EU jurisdictions have not adopted IFRS for SMEs?

10- Please explain the extent to which the decision regarding IFRS for SMEs aligned with your jurisdiction's financial reporting culture.

Prompt:

- Culture is defined as a set of shared beliefs and preferences across entities (norms).
- What about investors' protection and conservatism?

11- Were there any political factors that influenced the decision regarding IFRS for SMEs?

Prompt:

- Politics is the outcome of interested stakeholders' influence on other organisations and how these stakeholders reach their desired outcomes.
- What about the influence of the EC and the IASB?
- Does the FRC decision with regards to IFRS for SMEs have any implications on its role or position as the UK national accounting standard setter?

12- Are there any other important issues you wish to raise?

13- Can you name anyone else whom it would be useful for me to interview?

Appendix C: Consent Form

Department of Accounting and Finance

Mr. Mohammad Wazzan

E-mail: m.wazzan@bristol.ac.uk

CONSENT FORM

An exploratory study of accounting standard setters' decision-making processes: The case of adoption of IFRS for SMEs in the EU

Brief Project Outline:

This study aims to develop a better understanding of the decision-making process of national accounting standards boards (NASBs) by examining international variation in the adoption of IFRS for SMEs in the European Union (EU). The study explores factors that influence FRC's decision with regard to IFRS for SMEs.

At all times, the University of Bristol's research ethics policies and processes will be applied. This ensures confidentiality and anonymity for all participants. Each interview is scheduled to last between 30-60 minutes. All participation is voluntary and should you wish to withdraw at any time from the study then you are free to do so without reason or explanation, and your responses will be permanently erased. The data collected from participants will be anonymized, kept secure under password protection. Finally, if you choose to participate, it remains your choice whether to answer specific questions.

Please answer the following questions to the best of your knowledge	**Yes**	**No**
Participation		
I have been given information explaining about the study.	☐	☐
I have been given the opportunity to ask questions about the study.	☐	☐
I have been given satisfactory answers to all my questions.	☐	☐
I agree to take part in the study. Taking part in the research involves being interviewed.	☐	☐
I agree for the interview to be recorded (audio). However, if you wish the interview not to be recorded, detailed notes will be taken instead.	☐	☐
I agree for the interview to be transcribed	☐	☐
I understand that my participation is voluntary; I can withdraw from the study at any time and I do not have to give any reasons for why I no longer want to take part.	☐	☐
Would you like to receive a copy of the interview transcript?	☐	☐

Use of the information I provide for this study only

I understand my personal details such as phone number and address will not be revealed to people outside the study. ☐ ☐

I understand that my words may be quoted in publications, reports, web pages, and other research outputs. However, any identifying information such as personal details will not be used in any quoted materials ☐ ☐

The researcher can use the information you provide legally

I agree to assign the copyright I hold in any materials related to the study entitled: **"An exploratory study of accounting standard setters' decision-making processes: The case of adoption of IFRS for SMEs in the EU".** ☐ ☐

______________________	______________________	______________________
Name of participant [printed]	Signature	Date
Mohammad Wazzan	[redacted]	16 July 2019
Name of researcher [printed]	Signature	Date

If you have any ethical concerns related to your participation in this study please direct them to the Joint Chairs of the School of Economics, Finance and Management's Research Ethics Committee: Dr. Chinyere Uche (chinyere.uche@bristol.ac.uk) or Dr. Stephan Heblich (stephan.heblich@bristol.ac.uk).

Appendix D: Invitation Letter

Mohammad Wazzan
School of Economics, Finance and Management
12 Priory Road
Clifton
Bristol, BS8 1TN
Tel: +44 (0) 7492917174
m.wazzan@bristol.ac.uk

16 July 2019

Dear [Participant's Name],

An exploratory study of accounting standard setters' decision-making processes: The case of adoption of IFRS for SMEs in the EU

[Introduce Participant's relevant experience and reasons for invitation]. I would like to invite you to participate in a study I am conducting as part of my PhD research in the Department of Accounting and Finance at the University of Bristol. My research aims to develop a deeper understanding of the decision-making process of national accounting standards boards by examining international variation in the adoption of IFRS for SMEs in the European Union taking account of the IAS Regulation which does not foresee endorsement of the IASB pronouncement. In this respect, I should conduct 40 interviews, thus your help is much appreciated.

The interview lasts 30-60 minutes and it covers four main areas as follows:
• Your role and responsibilities during the discussion with regard to IFRS for SMEs.
• The nature of the decision-making process regarding IFRS for SMEs.
• A discussion of IFRS for SMEs attributes.
• Any knowledge you have on decision-making by other NASBs.
Participation in this study is entirely voluntary, does not require any preparation and withdrawal from the project is available at any stage. With your permission, the interview will be recorded and transcribed to facilitate the data analysis process. Should you wish, I will send you a copy of the interview transcript to allow you to confirm its accuracy.

Although I do not anticipate any sensitive information to be covered during the interview, I will ensure that your responses and any other material provided will be anonymised, stored and protected in line with the University of Bristol's research ethics guidelines. If you have any questions regarding this study or would like additional information to assist you in reaching a decision about participation, please contact me by e-mail or my supervisor Professor Stuart Cooper (s.m.cooper@bristol.ac.uk).

If you wish to discuss any aspects of the research ethics with an independent member of the faculty at the University of Bristol, then please contact the Joint Chairs of the School of Economics, Finance and Management's Research Ethics Committee: Dr. Chinyere Uche (chinyere.uche@bristol.ac.uk) or Dr. Stephan Heblich (stephan.heblich@bristol.ac.uk).

If you are willing and able to participate in the research, please email me at the address above with some suggested dates and times, or please provide a telephone contact to enable us to arrange a mutually convenient time.

I am very grateful to you for considering this invitation and look forward to hearing from you.

Yours sincerely,

Mohammad Wazzan